

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark one)

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2004

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the transition period from _____ to _____

Commission File No. 1-9035

Pope Resources, A Delaware Limited Partnership

(Exact name of registrant as specified in its charter)

Delaware

(State of Organization)

91-1313292

(IRS Employer I.D. No.)

19245 Tenth Avenue NE, Poulsbo, WA 98370

(Address of principal executive offices, Zip Code)

Registrant's telephone number, including area code: **(360) 697-6626**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Depositary Receipts (Units)

NASDAQ National Market System

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer within the meaning of Exchange Act Rule 12b-2. Yes No

Approximate aggregate market value of the non-voting equity units of the registrant held by non-affiliates as of June 30, 2004 was \$73,212,000.

The number of the registrant's limited partnership units outstanding as of February 22, 2005 was 4,585,096

Documents incorporated by reference: **See Item 15. Exhibit Index Item IV.**

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Form 10-K
For the Fiscal Year Ended December 31, 2004
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PART I

Item 1. BUSINESS

OVERVIEW

Pope Resources, A Delaware Limited Partnership (the "Partnership"), was organized in October 1985 as a result of a spin-off by Pope & Talbot, Inc. (P&T), Pope & Talbot Development, Inc. and other P&T affiliates, of certain of their timberland and real estate development assets.

The Partnership currently operates in three primary business segments: (1) Fee Timber, (2) Timberland Management & Consulting, and (3) Real Estate. Fee Timber operations consist of the growing and harvesting of timber from the Partnership's tree farms. Timberland Management & Consulting encompasses providing timberland management and forestry consulting services to third-party owners of timberlands and is conducted primarily through the Partnership's wholly owned indirect subsidiary, Olympic Resource Management LLC ("ORMLLC"). Real Estate operations consist of efforts to enhance the value of the Partnership's land investments by obtaining the entitlements and, in some cases, building the infrastructure necessary to make further development possible. Further segment financial information is presented in Note 9 to the Partnership's Consolidated Financial Statements included in this report.

DESCRIPTION OF BUSINESS SEGMENTS

Fee Timber

Operations. The Partnership's Fee Timber segment consists of operations surrounding management of the Partnership's core assets: the Hood Canal tree farm, which consists of 71,000-acres located in the Hood Canal area of Washington which the Partnership has held since its formation, and the 44,000-acre Columbia tree farm located in the southwestern area of Washington state. The Partnership views its two tree farms as core holdings and manages them as a single operating unit. Operations on the tree farms consist of the growing of timber and the subsequent harvesting and marketing of timber and timber products to both domestic and Pacific Rim markets. The Partnership's Fee Timber segment produced 85%, 85%, and 72% of the Partnership's consolidated revenues in 2004, 2003, and 2002, respectively.

Inventory. Inventory information discussed below is for both the Hood Canal and Columbia tree farms.

We define "merchantable timber inventory" to mean timber inventory in productive timber stands that are 35 years of age and older, which represents management's estimate of when merchantable value would be assigned to the timber in a timberland sale. Stands are not normally at their economic rotation age until after 40 years. As of January 1, 2005, the tree farms' total merchantable inventory volume was estimated to be 486 million board feet (MMBF). The Partnership's estimated merchantable timber inventory volume as of January 1, 2004 was 464 MMBF. Economic rotation age represents the estimated optimal age to harvest a specific stand of timber. The economic rotation age varies by geographic site and species but for purposes of calculating the rate used for depletion expense in the Partnership's financial statements we use 40 years as the estimated age of economic rotation.

The Partnership's merchantable inventory as of January 1, 2005 is spread between age classes as follows:

Age Class	1/1/2005 Volume (in MMBF)
35 to 39	67
40 to 44	66
45 to 49	33
50 to 54	30
55 to 59	81
60 to 64	97
65+	112
	486

Timber inventory volume is estimated using the Partnership's standing timber inventory system, which utilizes annual statistical sampling of the timber (a process called "cruising") with adjustments made for estimated growth and depletion of areas harvested. The accuracy of this process is monitored through comparing the actual volume taken from stands harvested to the volume by stand indicated by the Partnership's standing inventory system. This comparison often indicates specific units where the actual cut was different from the inventory. The difference in an aggregate sense for any given year, however, between the volume reflected in the inventory for that year's harvest units and the amount of harvest volume actually removed from those units is usually within a couple percent of volume harvested. Inventory volumes take into account the applicable state and federal regulatory limits on timber harvests as applied to our properties, including the Forests and Fish Law that supplements Washington State's forest practice regulations to provide for expanded riparian management zones, wildlife leave trees, and other harvest restrictions. The Partnership cruised 20% of its productive timberland acres with stand ages of at least 20 years in each of the years 2004, 2003, and 2002 and plans to continue at that rate of cruise activity for the next year before reducing it to 10% during subsequent years. The Partnership increased its annual plan for inventory cruises in 2002 in order to more accurately refine future harvest schedules.

The dominant timber species on the Partnership's tree farms is Douglas-fir. Douglas-fir is noted for its strength, flexibility, and other physical characteristics that make it generally preferable to other softwoods and hardwoods for the production of construction grade lumber and plywood. In addition to Douglas-fir, inventory on the Partnership's tree farms include Western Hemlock, Western Red Cedar, and Red Alder. The Partnership's total merchantable timber inventory as of January 1, 2005 is spread between species as follows:

Species	Volume (in MMBF)	Percent of total
Douglas-fir	352	73%
Western Hemlock	61	12%
Western Red Cedar	21	4%
Other Conifer	13	3%
Red Alder	34	7%
Other Hardwood	5	1%
Total	486	100%

The Hood Canal tree farm has significant acreage with mature timber and even more acreage with relatively immature trees, which results in what we call a "bimodal" age class pattern that management believes is common among western U.S. timberland ownerships. This bimodal pattern can be dealt with in three primary ways: (1) delay harvests of mature acres to backfill what would otherwise be smaller harvest years until the immature trees become merchantable; (2) harvest the mature acres at a rate that more closely approximates rotation age and allow later harvest cash flows to decline for some period while the younger blocks of acreage mature; or (3) acquire timberland properties with age-class characteristics that fill in the trough in the bimodal pattern. The Partnership opted for this last alternative with the acquisition of the Columbia tree farm in March 2001. Management believes it not only made a sound value investment on its own merits in acquiring the Columbia tree farm, but also made significant progress toward smoothing the age-class distribution of the Partnership's timberland holdings.

The Partnership's tree farms as of January 1, 2005 total 115,000 acres. Of this total, approximately 100,000 acres are designated productive acres. Productive acres represent land that is suitable for growing and harvesting timber and excludes acreage that is unavailable for harvest because it is in protected wetlands or riparian management zones (stream set-asides). Productive acres also reflect deductions for roads and other land characteristics that inhibit suitability for growing or harvesting timber. As of January 1, 2005, total productive acres are spread by timber age class as follows:

Age Class	1/1/2005 Acres	%
Clear-cut	1,681	2%
0 to 4	8,661	9%
5 to 9	14,046	14%
10 to 14	4,059	4%
15 to 19	15,503	16%
20 to 24	15,739	16%
25 to 29	10,697	11%
30 to 34	5,094	5%
35 to 39	4,784	5%
40 to 44	3,867	4%
45 to 49	2,010	2%
50 to 54	1,435	1%
55 to 59	3,562	4%
60 to 64	4,192	4%
65+	4,228	4%
	99,558	100%

The Partnership's annual harvest level is derived from a long-term harvest plan that factors in economic rotation ages of all stands, existing timber inventory levels, growth and yield assumptions, and regulatory constraints associated with the Washington State Forest Practices Act. From this information, management develops annual and long-term harvest plans predicated on their assessment of existing and anticipated economic conditions with the objective of maximizing long-term values. This plan is updated periodically to take into account changes in timber inventory, including species mix, site index (classification of soil productivity), volume, size, and age of the timber. The long-term harvest plan is calculated using a non-declining even-flow harvest constraint, meaning that future harvest levels will always be as high or higher than current levels.

Projected annual harvest levels over the next 30 years in million board feet (MMBF):

Period	Harvest
2005	79,100
2006 to 2016	52,500
2017 to 2026	52,500
2027 to 2034	52,500

As stated above, future harvest levels are modeled to be non-declining in volume over time. An exception to this harvest-modeling rule will be made for the approximately 4,700 acres of timberland acquired in 2004, which included a large percentage of merchantable timber. As a result of these transactions, the annual harvest was increased to 60.3 MMBF in 2004 and our harvest level in 2005 is expected to be 79.1 MMBF before declining to 52.5 MMBF in 2006. The increase in harvest level in 2004 and 2005 is expected to recoup a significant portion of the aggregate price paid for these acquisitions. The incremental increase in 2005 harvest over the 2004 level will not have a corresponding significant impact on net income. Depletion costs related to a portion of this incremental harvest will be calculated using a stand-alone cost pool of the timber acquired in late 2004. For the incremental harvest in 2005 over 60 MMBF, this accounting treatment is expected to result in depletion cost that approximates the net stumpage value of the timber harvested and thus, modest earnings impact notwithstanding higher cash flows.

Marketing and Markets. The Partnership markets timber using the manufactured log method, where it engages independent logging contractors to harvest the standing timber and manufacture it into logs that the Partnership then sells on the open market. The Partnership or its subsidiaries retain title to the logs until harvest is concluded and delivery takes place, which normally occurs at a customer log yard. We sell our logs both domestically and internationally through log exporting intermediaries. One of our principal international markets is the Pacific Rim. Logs going to this destination are generally sold to US-backed brokers who in turn sell direct to offshore customers. Japan is by far the largest buyer of logs in the Pacific Rim market, though Korea and China represent significant export markets from time to time.

Customers. The Partnership sells its logs domestically to lumber mills (and other processors of wood fiber) located throughout western Washington and northwest Oregon. Logs sold to the export market are sold to export intermediaries located at the ports of Tacoma, Olympia, and Longview, Washington. The cost of transporting logs limits the destinations to which the Partnership can profitably sell its logs.

The Fee Timber segment had two major customers, Simpson Timber Company and Weyerhaeuser Company, which represented 18% and 14%, respectively of segment revenue in 2004. Mill competition for available log supply is an important factor in the harvest and sale of logs. Lumber mill ownership had consolidated in prior years. This trend eased in 2004 with the actual and announced opening of several new mills in the Puget Sound region. Further consolidation of mill ownership in the Puget Sound area could cause a decline in prices realized for the Partnership's logs. The Partnership delivered logs to over 20 separate customers during 2004.

Competition. There are many competitors of the Partnership who are, for the most part, comparable in size or larger. Log sellers compete on the basis of quality, pricing, and the ability to satisfy volume demands for various types and grades of logs to respective markets. Management believes that the location, type, and grade of the Partnership's timber will enable it to effectively compete in these markets. However, the Partnership's products are subject to increasing competition from a variety of non-wood and engineered wood products as well as competition from foreign-produced logs.

Forestry and Stewardship Practices. The Partnership's timberland operations incorporate management activities that include reforestation, control of competing brush in young stands, thinning of the timber to achieve optimal spacing after stands are established, and fertilization. During 2004, the Partnership planted 1,136,000 seedlings on 2,700 acres of the Partnership's tree farms. This compares to the years 2003 and 2002 in which the Partnership planted 677,000 and 648,000 seedlings on 1,700 and 1,500 acres, respectively. Seedlings are generally planted from December to June depending on weather and soil conditions. The number of acres and seedlings planted will vary from year to year based upon harvest level, the timing of harvest, and seedling mortality rates on stands planted in prior years. Management's policy is to stay current on its reforestation program, returning all timberlands to productive status as soon as economically feasible following harvest.

Sustainable Forestry Initiative (SFI). In 2003, management engaged Pricewaterhouse Coopers LLP to audit the Partnership's forestry and stewardship practices against those required by the American Forest & Paper Association for SFI certification. The Partnership's tree farms passed the audit and are now SFI certified. Certification under SFI is not currently a requirement to sell to customers in the Partnership's geographic market but the certification is gaining more market acceptance and may represent a competitive advantage in the future. Additionally, management believes that independent third-party verification of the Partnership's strong commitment to sustainable land stewardship practices helps the Partnership maintain positive relationships with customers and neighbors.

Fire Management. Management has taken a number of steps to mitigate risk of loss from fire, which is nonetheless possible on any timberland property. First, the Partnership maintains a well-developed road system that allows access and quick response to fires that do occur. Second, management maintains a fire plan and program that provides for increased monitoring activities and requires all operators to maintain adequate fire suppression equipment during the summer fire season.

Timberland Management & Consulting

Background. In March 1997, the Partnership's unitholders authorized management to expand its timberland business with the Investor Portfolio Management Business (IPMB). The IPMB has two complementary business strategies: (a) timberland management and (b) portfolio development. In 1997, the Partnership formed two wholly owned subsidiaries ORM, Inc. and ORMLLC to facilitate the IPMB activities.

Operations. The Timberland Management & Consulting segment's key operation has been to provide various aspects of timberland management services to third-party timberland owners. During the fourth quarter of 2004 Cascade Timberlands LLC and ORMLLC announced that following an 18-month bankruptcy process, a court approved liquidation plan transferred the ownership of 522,000 acres formerly owned by Crown Pacific LP to Cascade Timberlands LLC. ORMLLC began managing those timberlands as of January 1, 2005.

Timberland Management. Timberland management provides timberland management services to timberland owners. These services generally take the form of a long-term contract where ORMLLC personnel provide on the ground timberland management expertise. As of January 1, 2005 ORMLLC began providing these services to Cascade Timberlands LLC on 522,000 acres located in Oregon and Washington.

Portfolio Development. Portfolio development's goal is to build and manage diversified portfolios of timberlands for third-party investors. An example of the strategy ORMLLC is employing to meet this goal is ORM Timber Fund I, LP. We have made excellent progress toward our goal of raising \$50 million of investment capital and expect to close the Fund in the second quarter of 2005. The Fund is being marketed to accredited investors (with a minimum investment of \$500,000) and Pope Resources will invest 10% of the \$50 million equity portion of the Fund. As the fund approaches closing, ORMLLC will look for timberland for the Fund to acquire. ORMLLC expects to earn timberland management and asset management fees from the Fund. If ORM Timber Fund I, LP is successfully launched, ORMLLC will attempt to raise additional capital and establish a series of Timber Funds.

Forestry Consulting. In addition to its timberland management activities, ORMLLC also earns revenue by providing forestry-consulting services to third-party owners and managers of timberland assets in Washington, Oregon, and California. ORMLLC is providing forestry consulting services from five separate locations in Washington: Port Angeles, Port Gamble, Poulsbo, Sedro-Woolley, and Chehalis; one location in Bend, Oregon and one location in McCloud, California.

Marketing. ORMLLC pursues third-party timberland management opportunities in the U.S. West through direct marketing to timberland owners. Marketing includes regular contact with forest products industry representatives and non-industry owners to develop new business opportunities. ORMLLC has developed brochures and other marketing materials that describe the services provided through the Timberland Management & Consulting segment. The Partnership's acquisition and disposition activities keep management informed of changes in timberland ownership that can represent opportunities for the Partnership to market its services.

Customers. Timberland management revenue in 2004 includes one client that represented 50% of segment revenue.

Competition. ORMLLC and its subsidiaries compete against both larger and smaller companies providing similar services. There are approximately one dozen established timberland investment management organizations competing against ORMLLC in the timberland portfolio development business. The companies in this group have access to established sources of capital and, in some cases, increased economies of scale that can put ORMLLC at a disadvantage. Smaller regional companies compete effectively on price for limited scope consulting and land management projects.

Real Estate

Background. The Partnership's Real Estate activities are closely associated with the management of its timberlands. After logging its timberlands, and subject to zoning regulations, the Partnership has three primary options for what to do next: reforest the land; develop it for sale as improved property; or sell it in undeveloped (or developed) acreage tracts. Management continually evaluates its timberlands in terms of best economic use, whether this means continuing to grow timber or reclassifying the property for sale or development. As management reclassifies timber properties for sale or development, the Partnership may replace such properties with timberland purchases in more remote areas.

Operations. Real Estate operations include (a) residential and commercial property rentals in Port Gamble and (b) that work considered by management necessary to maximize the value of the Partnership's 3,000-acre portfolio of higher-and-better-use property holdings. This latter objective is generally obtained by securing the entitlements necessary to make development possible.

Port Gamble. Port Gamble has been designated a "Rural Historic Town" under Washington State's Growth Management Act (GMA). This designation allows for substantial new commercial, industrial, and residential development of the town utilizing historic land use patterns, densities, and architectural character. Efforts in 2004 centered on continuing to introduce and nurture visitor-focused commercial activities to the town. These include antiques, an art gallery, and a teashop. The Partnership has continued to focus on promoting the town as a venue for weddings and events, hosting 31 weddings in its second year and 4 major festivals. The Kitsap Visitor and Convention Bureau recognized these efforts by honoring Port Gamble with its Tourism Promoter of the Year award. Other 2004 efforts included repairs and maintenance activities to make the town more appealing to visitors, residents, and commercial tenants. In the fourth quarter of 2004 the Partnership provided a proposal to the State of Washington to use the Port Gamble millsite for building pontoons for the replacement of the Hood Canal bridge. The outcome of this proposal is not yet known but could provide another revenue generating opportunity for the town while plans for its long-term future is developed.

A negotiated settlement with P&T in January 2002 resulted in the Partnership taking over the millsite as well as providing for the initiation of environmental cleanup activities, the responsibility for which is being split between P&T and the Partnership. That settlement represents a significant step toward defining Port Gamble's future. In January 2005, Pope & Talbot and Pope Resources received Washington State's highest award from the Washington State Department of Ecology for its work cleaning up the environmental contamination at Port Gamble. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations – Real Estate – Environmental Remediation Costs."

Other Land Investments. The Partnership is also involved in adding value to other real estate development properties (such as those located in Gig Harbor, Bremerton, and Kingston, Washington) through efforts to secure approved development plans for each of these properties. These investments are long-term in nature. With the passage of the GMA in the early 1990's, the Partnership worked to place as many of its properties as possible within designated Urban Growth Areas to increase long-term values. Value-adding activities include securing favorable zoning and obtaining final plat approvals to allow for the highest and best use of the properties. Once the Partnership has maximized the land value, alternatives for realizing value from the properties will be considered, including development, outright sale, or joint ventures with experienced property developers.

The Partnership has also developed a rural residential lot program that produces lots from 5 to 80 acres in size. Typically for this type of program the entitlement effort is more modest in scale, usually involving simple lot segregations and boundary line adjustments. Development includes minor road building, surveying, and the extension of utilities. The first of these rural residential projects began marketing in 2004 and is expected to yield sales beginning in 2005. The Partnership expects to develop a steady supply of rural residential lots that will result in an ongoing revenue stream for the Real Estate segment.

Gig Harbor. Gig Harbor, a suburb of Tacoma, Washington, is the site of a 320-acre mixed-use development. The Partnership expects to benefit from an amendment to the City of Gig Harbor's comprehensive plan in 2003 that will allow 35 acres of the property to be rezoned from business-park to commercial retail. Assuming the rezone of the 35 acres occurs, the development opportunity for the 320-acre project will be roughly as follows: 210 acres for residential development; 75 acres for a business park; and 35 acres for a neighborhood commercial center. In December 2003, the Partnership executed a purchase and sale agreement with Costco Wholesale Corporation for approximately 17 acres of the commercial center with the ultimate acreage amount dependent on a finalized site plan. In June 2004, the Partnership executed a purchase and sale agreement with Northwest Capital Investors for 1.7 acres of the commercial center and in 2002, the Partnership executed a purchase and sale agreement with the YMCA for 11 acres of the business park. Prior to closing on these sales, the Partnership will be committed to install infrastructure, including road, sewer, and water infrastructure, in order to facilitate development of the property and comply with obligations set out when the property was annexed into the City. Expenditures to install infrastructure for the Gig Harbor site are expected to begin in the summer of 2005 and continue for several years and are expected to total between \$13.0 million and \$15.0 million. The Partnership expects revenue from this property to begin in 2006 and peak in conjunction with the anticipated opening in 2007 of a new Tacoma Narrows Bridge span connecting Gig Harbor with Tacoma.

Bremerton. The City of Bremerton approved the request for a planned development on the Partnership's 263-acre mixed-use property within the city limits of Bremerton. The planned development will include 60 acres of industrial and 203 acres of residential uses. In December 2004, the Kitsap County Consolidated Housing Authority entered into a Purchase and Sale Agreement to purchase 203 acres that are zoned for residential use. The road and utility infrastructure needed to complete this sale will allow the Partnership to open up the first phase of the industrial business park for more active marketing.

Kingston. The Partnership had a 726-acre residential development project in Kingston called Arborwood. The Partnership is currently developing a plan with Kitsap County to delay processing the project application while undergoing a comprehensive plan amendment to bring urban-level zoning to approximately half of the property. In June 2004, the Partnership sold 426 acres adjacent to this project to Kitsap County for use as a regional park and agreed to extend an option on an additional 360 acres until July 2008 to further expand the park. The option represents the other half of the formerly 726-acre project. Such new zoning coupled with a proposed new wastewater treatment plant would allow reconfiguration of the existing plan to allow a more diverse set of residential products.

Hansville. Preliminary plat approval was granted for 89 lots on the 205-acre Hansville property in early 2002. The Partnership marketed the property to local and regional developers and sold it in December 2004.

Marketing. Marketing activities in the Real Estate segment consisted of marketing residential and commercial space available for lease during 2004. The Partnership continues to list various properties as they become available either to other developers or end users. Rural residential lots are listed with real estate brokers that specialize in raw land sales.

Customers. The Partnership's customers for Port Gamble rental space consist of both individual and commercial tenants. Land-buying customers are typically either private individuals or residential contractors interested in purchasing undeveloped land.

Competition. The Partnership's Real Estate activities consist primarily of adding value to current land holdings. Once those properties are ready for development, the Partnership will likely seek property developers for a sale or joint venture. Other bulk parcel owners in the Puget Sound area have similar strategies.

Transportation. Land values for our Real Estate portfolio are strongly affected by transportation limitations between the Kitsap Peninsula and the Seattle-Tacoma corridor. Transportation options between Seattle/Tacoma and Kitsap County include driving on the Tacoma Narrows Bridge or taking a car ferry. The Washington State Department of Transportation has been working for several years to add a new span to the Tacoma Narrows Bridge connecting Tacoma and Gig Harbor. The project, expected to be completed in 2007, is a public/private partnership that will be financed through the imposition of tolls.

Ferry transportation in our operating geography currently includes ferries that carry both automobiles and passengers from Kingston, Bremerton, and Bainbridge Island to Seattle and back. Two private companies began offering passenger-only ferry service from the peninsula to Seattle during 2004. Kitsap Ferry Company is operating passenger-only ferry service from Bremerton to Seattle and Aqua Express is offering passenger-only ferry service from Kingston to Seattle. The Partnership expects that the initiation of this passenger-only ferry service will broaden the potential market for our development properties and rural residential lot program.

Employees.

As of January 1, 2005, the Partnership employed 53 full-time, year-round salaried employees and up to 19 part-time and seasonal personnel, who are distributed between the segments as follows:

Segment	Full Time	Part Time/ Seasonal	Total
Fee Timber	12	5	17
Timberland Management & Consulting	22	5	27
Real Estate	10	9	19
General and Administrative	9	—	9
Totals	53	19	72

None of the Partnership's employees are subject to a collective bargaining agreement and the Partnership has no knowledge that any steps toward unionization are in progress. Management considers the Partnership's relations with its employees to be good.

Government Regulation

In the operation and management of its tree farms, the Partnership is subject to federal and state laws that govern land use. Management's objective is to be in compliance with such laws and regulations at all times. We anticipate that increasingly strict requirements relating to the environment, threatened and endangered species, natural resources, forestry operations, and health and safety matters, as well as increasing social concern over environmental issues, may result in additional restrictions on the timber operations of the Partnership. This will in turn result in increased costs, additional capital expenditures, and reduced operating flexibility. Management believes the Partnership's assets and properties are in material compliance with all applicable federal, state and local laws, regulations and ordinances applicable to its business. However, there can be no assurance that future legislative, governmental, or judicial decisions will not adversely affect the Partnership's operations. See "Governmental Regulation," below.

Regulatory Structure

Growing and harvesting timber are subject to numerous laws and government policies to protect the environment, non-timber resources such as wildlife and water, and other social values. Changes in those laws and policies can significantly affect local or regional timber harvest levels and market values of timber-based raw materials. Real estate development activities are also subject to numerous state and local regulations such as the GMA. In addition, the Partnership is subject to federal, state or provincial, and local pollution controls (with regard to air, water and land); solid and hazardous waste management, disposal and remediation laws; and regulations in each segment and all geographic regions in which it has operations.

Endangered Species and Habitats. A number of fish and wildlife species that inhabit geographic areas near or within Partnership timberlands have been listed as threatened or endangered under the federal Endangered Species Act (ESA) or similar state laws in the United States. Federal ESA listings include the northern spotted owl, marbled murrelet, a number of salmon species, bull trout and steelhead trout in the Pacific Northwest. Listings of additional species or populations may result from pending or future citizen petitions or be initiated by Federal or state agencies. Federal and state requirements to protect habitat for threatened and endangered species have resulted in restrictions on timber harvest on some timberlands, including some timberlands of the Partnership. Additional listings of fish and wildlife species as endangered, threatened, or sensitive under the ESA and similar state laws as well as regulatory actions taken by Federal or state agencies to protect habitat for these species may, in the future, result in the following: an increase in operating costs; additional restrictions on timber harvests, forest management practices or real estate development; and potential impact on timber supply and prices.

Forestry Management Practices. Forest practice acts in some states in the United States increasingly affect present or future harvest and forest management activities. For example, in some states, these rules have one or more of the following impacts: limit the size of clear-cut; require some timber to be left unharvested to protect water quality and fish and wildlife habitat; regulate construction and maintenance of forest roads; require reforestation following timber harvest; and contain procedures for state agencies to review and approve proposed forest practice activities. Federal, state, and local regulations protecting wetlands could affect future harvest and forest management practices on some of the Partnership's timberlands.

Each state in which the Partnership owns or manages timberlands has developed "best management practices" to reduce the effects of forest practices on water quality and aquatic habitats. Additional, more stringent regulations may be adopted in order to achieve the following: enhance water quality standards under the federal Clean Water Act; protect fish and wildlife habitats; or advance other public policy objectives.

In the State of Washington, the Forest and Fish Report became the basis for revised Forest Practices Rules and Regulations that were adopted in 1999. The Washington Forest Protection Association produced the Forest and Fish Report through the collaborative efforts of Washington State's private landowners; federal, state and county governments; and Native American tribes. The goals of these revised rules are to:

- Provide compliance with the Endangered Species Act (ESA) for aquatic and riparian dependent species on private forest lands;
- Restore and maintain riparian habitat on private land to support a harvestable supply of fish;
- Meet the requirements of the Clean Water Act for water quality on private forest lands; and
- Keep the timber industry economically viable in the State.

The proposed Water Quality Standards that the Washington State Department of Ecology adopted in 2003 have undergone Department of Ecology and public scrutiny. As such, these rules should be sufficient to comply with the Anti-Degradation Implementation Plan as described in the Clean Water Act.

The regulatory and non-regulatory forest management programs described above have increased operating costs and resulted in changes in the value of timber and logs from the Partnership's timberlands. These kinds of programs also can make it more difficult to respond to rapid changes in markets, extreme weather or other unexpected circumstances. One additional effect may be further reductions in usage of (and some substitution of other products for) lumber and plywood. The Partnership does not believe that these kinds of programs have had, or in 2005 will have, a significant effect on the Partnership's total harvest of timber, although they may have such an effect in the future. Further, management does not expect the Partnership to be disproportionately affected by these programs as compared with typical timberland owners. Likewise, management does not expect that these programs will significantly disrupt its planned operations over large areas or for extended periods.

Water Quality. The U.S. Environmental Protection Agency also promulgated regulations in 2000 requiring states to develop total maximum daily load (TMDL) allocations for pollutants in water bodies that have been determined to be "water quality impaired." The TMDL requirements may set limits on pollutants that may be discharged to a body of water or set additional requirements, such as best management practices for nonpoint sources, including timberland operations, to reduce the amounts of pollutants. These requirements are expected to impact tree farming principally through new rules requiring tree farms to better control silt from roads, harvest blocks and other management activities from coming in contact with water quality impaired bodies of water. TMDLs will be established for specific water bodies in many of the states in which the Partnership operates. TMDLs will be written to achieve water quality standards within 10 years when practicable. It is not possible at this time to estimate the capital expenditures that may be required for the Partnership to meet pollution allocations until a specific TMDL is promulgated or to determine whether these expenditures will have a material impact on the Partnership's financial condition or results of operations.

Washington State Growth Management Act (GMA). Land holdings throughout Washington State are affected by the GMA, which requires counties to submit comprehensive plans that identify the future direction of growth and stipulate where population densities are to be concentrated. The purposes of the GMA include: (1) direction of population growth to population centers (Urban Growth Areas), (2) reduction of “suburban sprawl”, and (3) protection of historical sites. The Partnership works with local governments within the framework of the GMA to develop its real estate holdings to their highest and best use.

Item 2. PROPERTIES

Description	Segment	Acres/ Sq. Ft.	Type	Owned/ Leased	Encumbrance
Poulsbo headquarters building	G&A	4 Acres/ 10,000 Sq. Ft.	Office building	Owned	None
Total Acres used for office space		4 Acres			
Hood Canal tree farm	Fee Timber	71,570 acres	Timberland property	Owned	\$34.9 Million
Columbia tree farm	Fee Timber	43,825 acres	Timberland property	Owned	None
Total Fee Timber Acres		115,395 acres			
Oak Bay	Real Estate	82 acres	Land held for sale	Owned	None
Tank	Real Estate	10 acres	Land held for sale	Owned	None
Staircase	Real Estate	41 acres	Land held for sale	Owned	None
Tahuya	Real Estate	30 acres	Land held for sale	Owned	None
Three Fingers Pond	Real Estate	330 Acres	Land held for sale	Owned	\$0.1 Million
Port Gamble townsite	Real Estate	130 acres	Land held for development	Owned	None
Kingston	Real Estate	1 acre	Land held for development	Owned	None
Bremerton	Real Estate	263 acres	Land held for development	Owned	\$0.2 Million
Gig Harbor	Real Estate	320 acres	Land held for development	Owned	\$0.6 million
Homestead	Real Estate	23 acres	Land held for development	Owned	None
Teal Vista	Real Estate	272 acres	Land held for development	Owned	None
Shine Canyon	Real Estate	70 acres	Land held for development	Owned	None
Arborwood	Real Estate	360 acres	Land held for development	Owned	None
Kitsap County Park Option*	Real Estate	360 acres	Land held for development	Owned	None
Point No Point	Real Estate	191 acres	Land held for development	Owned	None
Other	Real Estate	506 acres	Land held for development	Owned	None
Total Real Estate Acres		2,989			
Grand total acres		118,388			

* Kitsap County has an option to acquire this property that expires in July 2008.

Item 3. LEGAL PROCEEDINGS

None.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the Partnership's unit holders during the fourth quarter of 2004.

PART II**Item 5. MARKET FOR REGISTRANT'S UNITS, RELATED SECURITY HOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Certain information respecting trades in the Partnership's equity securities is quoted on the Nasdaq National Market System. The Partnership's units trade under the ticker symbol "POPEZ". The following table sets forth the 2004 and 2003 quarterly ranges of low and high prices, respectively, for the Partnership's units:

	2004		2003	
	High	Low	High	Low
First Quarter	\$ 24.00	\$ 15.00	\$ 12.50	\$ 7.00
Second Quarter	\$ 20.74	\$ 17.14	\$ 12.40	\$ 8.95
Third Quarter	\$ 24.00	\$ 18.02	\$ 14.65	\$ 11.70
Fourth Quarter	\$ 25.25	\$ 19.27	\$ 15.99	\$ 12.56

Unitholders

As of February 22, 2005, there were approximately 263 holders of record of 4,585,096 outstanding units.

Distributions

All cash distributions are at the discretion of the Partnership's managing general partner, Pope MGP, Inc. (the "Managing General Partner"). The Partnership made two quarterly seven-cents-per-unit distributions and two quarterly fifteen-cents-per-unit distributions with the four distributions totaling \$2.0 million in 2004. The Partnership made two quarterly five-cents-per-unit distributions and two quarterly seven-cents per-unit distributions totaling \$1.1 million in 2003. In October 2002 the Managing General Partner announced that it was reinstating a distribution policy. Management intends to continue to pay quarterly fifteen-cents-per-unit distributions in 2005 so long as the Managing General Partner determines this amount to be appropriate. Management will periodically examine the level of its distribution to ensure it meets the long-term objective of maximizing Partnership value.

Issuance of Unregistered Securities

The Partnership did not conduct any unregistered offering of its securities in 2004.

Repurchase of Equity Securities

The Partnership did not repurchase any of its equity securities in 2004.

Item 6. SELECTED FINANCIAL DATA

Actual Results. The financial information set forth below for each of the indicated years is derived from the Partnership's audited consolidated financial statements. This information should be read in conjunction with the consolidated financial statements and related notes included with this report and previously filed with the Securities and Exchange Commission (SEC).

(Dollars in thousands, except per unit data)	Year Ended December 31,				
	2004	2003	2002	2001	2000
Statement of operations data					
Revenues:					
Fee Timber (5)	\$ 33,571	\$ 22,916	\$ 23,298	\$ 24,999	\$ 21,444
Timberland Management & Consulting	1,601	2,386	7,295	9,703	11,011
Real Estate (6)	4,476	1,734	1,599	13,143	18,202
Total revenues	39,648	27,036	32,192	47,845	50,657
Operating income/(loss):					
Fee Timber (5)	15,126	9,669	10,199	9,190	12,895
Timberland Management & Consulting (3) (8)	(598)	272	919	1,685	75
Real Estate (1) (2) (6) (7)	1,586	(476)	(1,667)	(2,709)	(11,593)
General and Administrative	(2,986)	(2,842)	(3,864)	(5,110)	(7,254)
Total operating income/(loss)	13,128	6,623	5,587	3,056	(5,877)
EBITDDA (9):					
Net income/(loss) (4)	10,176	3,528	3,334	(432)	(6,251)
Net interest and income tax	2,952	3,048	2,106	3,317	374
Depreciation, Depletion, and amortization	5,752	3,546	3,864	7,698	2,899
EBITDDA	18,880	10,122	9,304	10,583	(2,978)
Free cash flow (9):					
Net income (loss)	10,176	3,528	3,334	(432)	(6,251)
Plus:					
Depreciation, Depletion, and amortization	5,752	3,546	3,864	7,698	2,899
Cost of land sold	209	200	189	777	31
Less:					
Principal payments	1,978	1,662	1,110	3,460	424
Recurring capital expenditures	3,260	2,017	2,158	1,995	2,858
Free cash flow (5)	10,899	3,595	4,119	2,588	(6,603)
Cash flow from operations	17,854	8,641	9,005	11,237	9,973
Earnings/(loss) per unit - diluted	2.22	0.78	0.74	(0.10)	(1.38)
EBITDDA per diluted unit	4.11	2.23	2.06	2.34	(0.66)
Distribution per unit	0.44	0.24	0.10	—	0.40
Balance sheet data					
Total assets	94,868	86,308	86,788	84,187	60,857
Long-term debt	34,164	36,114	37,665	38,592	12,685
Partners' capital	54,533	46,036	43,598	40,673	41,280
Debt to total capitalization	40%	45%	47%	49%	24%

As of and for the Year Ended December 31,
2004 2003 2002 2001 2000

Other data

Acres owned/managed (thousands)	121	114	270	617	655
Fee timber harvested (MMBF)	60.3	45.0	45.1	36.3	37.3

- (1) Real Estate operating income in 2004 includes a \$466,000 environmental remediation charge related to the townsite at Port Gamble.
- (2) Real Estate operating income in 2002 includes the following charges: \$730,000 environmental remediation charge related to the townsite at Port Gamble, Washington and a \$165,000 charge for warranty liabilities for homes sold in Port Ludlow, Washington prior to the August 2001 sale of Port Ludlow operations.
- (3) Timberland Management & Consulting operating income in 2002 includes \$583,000 of restructuring charges following the loss of the Hancock Timber Resource Group (HTRG) timberland management contract and closure of timberland consulting offices in Canada.
- (4) The Partnership recorded a tax benefit of \$907,000 in 2002 following the closure of the timberland consulting offices in Canada.
- (5) The Partnership acquired 4,700 acres of timberland in 2004 and the Columbia tree farm in March 2001. The cost of these acquisitions was not included in the calculation of free cash flow.
- (6) The Partnership sold its assets and operations in Port Ludlow, Washington in August 2001. Real Estate results for the 2001-year end include asset impairment charges of \$1.3 million resulting from negotiations surrounding the sale of assets in Port Ludlow.
- (7) In December 2000 the Partnership recorded an asset impairment charge of \$9.2 million as a result of the planned disposition of Port Ludlow. Year 2000 Real Estate results also include a \$2.0 million charge for estimated environmental remediation charges at the Port Gamble townsite.
- (8) In December 2000 the Partnership recorded an asset impairment charge of \$900,000 as a result of the planned disposition of the forestry consulting operations in British Columbia and a decline in acres managed for HTRG.
- (9) The Company considers earnings (net income or loss) before interest expense, income taxes, depreciation, depletion and amortization (EBITDDA) and free cash flow to be relevant and meaningful indicators of liquidity and earnings performance commonly used by investors, financial analysts and others in evaluating companies in its industry and, as such, has provided this information in addition to the generally accepted accounting principle-based presentation of net income or loss.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Note: Certain information in this report constitutes forward-looking statements within the meaning of federal securities laws. Forward-looking information, which includes forecasted asset purchases and sales and forecasted sources and uses of cash is subject to risks, trends, and uncertainties that could cause actual results to differ materially from those projected. Those uncertainties include but are not limited to changes to (1) regulations that affect the Partnership's ability to harvest timber and develop real estate, (2) economic conditions, which can have a significant effect on the price the Partnership can obtain for its timber, real estate, and other investments, and (3) each of those items discussed in "Risk and Uncertainties", below.

This discussion should be read in conjunction with the Partnership's audited consolidated financial statements included with this report.

EXECUTIVE OVERVIEW

Pope Resources, A Delaware Limited Partnership ("we" or the "Partnership"), was organized in October 1985 as a result of a spin-off by Pope & Talbot, Inc. ("P&T"). Pope Resources is engaged in three primary businesses. The first, and by far most significant segment in terms of owned assets and operations, is the Fee Timber segment. Operations in this segment consist of growing timber to be harvested as logs for sale to export and domestic manufacturers. The second most significant business in terms of total assets owned is the development and sale of real estate. Real Estate activities primarily take the form of securing permits, entitlements, and, in some cases, installing infrastructure for raw land development and then realizing that land's value by the selling of larger parcels to buyers who will take the land further up the value chain-either to home buyers or commercial property end-users. An additional activity that we expect will become a more significant component of our Real Estate revenue mix is the sale of rural residential lots to end-users. These lots will involve minimal development infrastructure and will range in size from 5 to 80 acres. Since these land projects span multiple years, the Real Estate segment may incur losses for multiple years until a major project is sold resulting in operating income. Our third business is that of providing timberland-related services to third parties. These services may take the form of large-scale timberland management, forestry consulting, or acquisition or disposition services. Factors affecting results from each of these segments are discussed in more detail below.

As of December 31, 2004, we owned over 115,000 acres of timberland in western Washington state plus 3,000 acres of real estate held for sale or development. Our third-party services have been historically conducted in the states of Washington, Oregon, and California, plus the Canadian provinces of British Columbia and Alberta.

Macroeconomic factors that have a significant bearing on our business include the following: housing starts in the US (and to a lesser degree in Japan); interest rates; and currency exchange rates – particularly those between the US and Canada, Japan, and Europe. The first two of these macroeconomic factors reflect or influence the health of the U.S. housing market. The housing market, together with the repair and remodel market, consume nearly 73% of the log volume supplied domestically. Currency exchange rates influence the competitiveness of our primary product compared to logs that might be imported from Canada, Europe, or the Southern Hemisphere. Our export logs are sold to domestic intermediaries who then export the logs. A favorable US\$/yen exchange rate can help these intermediaries compete in the Japanese market with logs that originate from Canada, Europe, or the Southern Hemisphere thus increasing the price that we are able to realize from the sale of this export quality log volume.

As an owner and manager of timberland, we focus keenly on three “product” markets: the markets for logs, lumber and timberland. Each of these markets has unique and distinct market factors so that they do not move up or down in lockstep with each other. Generally, the lumber market is the most volatile as it responds quickly (even daily) to changing demand expectations that are housing-driven and changes to lumber inventories. Log markets will in turn be affected by what is happening in the lumber spot markets, but pricing shifts typically adjust monthly rather than daily. Log price volatility is also moderated because logs are used to produce products besides just lumber (especially pulp). The market for timberland tends to be even less volatile with pricing that lags both lumber and log markets. This is a function of the longer time horizons utilized by investors in timberland where the short-swing fluctuations of log or lumber prices become stabilized in acquisition modeling. We watch the lumber market because activity there can presage log price changes. We are in the log market constantly as we negotiate delivery prices to our customers. The timberland market is important as we are constantly evaluating our own portfolio and its underlying value as well as the opportunities to adjust that portfolio through either the acquisition or disposition of such land.

Management’s major opportunity and challenge is to profitably grow our revenue base. We have added almost 50,000 acres over the last four years to our fee timberland portfolio including 4,700 acres during 2004. Our real estate challenges center around how and when to “harvest” a parcel of land and capture the optimum value increment through sale. Regarding our third-party timberland services, we began managing 522,000 acres of timberland in January 2005 for Cascade Timberlands LLC and are seeking to secure additional income opportunities for this segment.

Our consolidated revenues in 2004, 2003, and 2002, on a percentage basis by segment, are as follows:

Segment	2004	2003	2002
Fee Timber	85%	85%	72%
Timberland Management & Consulting	4%	9%	23%
Real Estate	11%	6%	5%

Further segment financial information is presented in Note 9 to the Partnership’s Consolidated Financial Statements included with this report.

RESULTS OF OPERATIONS

The following table reconciles net income for the years ended December 31, 2004 to 2003 and 2003 to 2002. This table provides readers with some detailed numeric analysis of factors affecting changes in net income over the last three years. Explanatory text describing these changes is contained in the remainder of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

YEAR TO YEAR COMPARISONS (Amounts in \$000's except per unit data)

	2004 vs. 2003		2003 vs. 2002	
	Total	Per Unit	Total	Per Unit
Net income:				
Year ended December 31, 2004	\$ 10,176	\$ 2.22		
Year ended December 31, 2003	3,528	0.78	\$ 3,528	\$ 0.78
Year ended December 31, 2002			3,334	0.74
	<u>6,648</u>	<u>1.44</u>	<u>194</u>	<u>0.04</u>
Variance	\$ 6,648	\$ 1.44	\$ 194	\$ 0.04
Detail of earnings variance:				
Fee Timber				
Log price realizations (A)	\$ 2,972	\$ 0.64	\$ (693)	\$ (0.14)
Log volumes (B)	5,165	1.12	(2)	—
Timberland sale income	(43)	(0.01)	236	0.05
Depletion	(2,206)	(0.48)	198	0.04
Other Fee Timber	(431)	(0.09)	(269)	(0.06)
Timberland Management & Consulting				
Management fee changes	547	0.12	(3,791)	(0.78)
Other Timberland Mgmt & Consulting	(1,417)	(0.31)	3,144	0.65
Real Estate				
Development property sales	2,631	0.57	204	0.04
Environmental remediation	(466)	(0.10)	730	0.15
Other Real Estate	(103)	(0.02)	257	0.05
General & administrative costs	(144)	(0.03)	1,022	0.21
Interest expense	37	0.01	235	0.05
Other (taxes, minority int., interest inc.)	106	0.02	(1,077)	(0.22)
	<u>6,648</u>	<u>1.44</u>	<u>194</u>	<u>0.04</u>
Total change in earnings	\$ 6,648	\$ 1.44	\$ 194	\$ 0.04

Fee Timber

Revenue and Operating Income

Fee Timber revenue is earned primarily from the harvest and sale of logs from the Partnership's 115,000 acres of fee timberland located in western Washington and to a lesser extent from the sale of gravel and cellular communication tower leases. We acquired nearly 4,700 acres of timberland during 2004 in three separate transactions. The timber on two of these transactions consisted primarily of merchantable timber, with the third property also comprising a meaningful proportion of merchantable timber. Taken together, the age-class characteristics of the three acquired properties resulted in an increase in harvest volume in 2004, and will also result in an even higher expected increase in harvest volume in 2005.

Revenue and operating income generated by the Fee Timber segment for each year in the three-year period ended December 31, 2004, are as follows:

Year ended	Timber revenue	Mineral, cell tower, and other revenue	Total segment revenue	Operating income
December 31, 2004	\$ 31.9 million	\$ 1.7 million	\$ 33.6 million	\$ 15.1 million
December 31, 2003	21.4 million	1.5 million	22.9 million	9.7 million
December 31, 2002	22.0 million	1.3 million	23.3 million	10.2 million

Fiscal Year 2004 compared to 2003. Fee Timber revenue increased \$10.7 million, or 47%, to \$33.6 million in 2004 from \$22.9 million in 2003. Harvest volume increased to 60 million board feet (MMBF) from 45 MMBF for 2003. The increase in harvest volume combined with a \$53 per thousand board feet (MBF) increase in average price realized resulted in the increase in revenue. Operating income increased \$5.4 million, or 56%, to \$15.1 million from \$9.7 million in 2003. The increase in operating income is due to the increase in revenue partially offset by increase in cost of sales and operating expenses.

The Partnership regularly adjusts its timberland portfolio of holdings as part of its active management through acquisitions and dispositions of smaller parcels. During 2004 the Partnership closed three separate timberlands acquisitions representing nearly 4,700 acres of timberland. Two of the three acquisitions represented acres that were virtually all harvestable immediately. The third acquisition parcel was a blend of merchantable and younger timber. As a result, annual harvest levels in 2005 are expected to increase to 79 MMBF, which is approximately 26 MMBF over our projected annual sustainable harvest of 53 MMBF. Assuming we do not acquire any additional timberland in 2005, the annual harvest in 2006 is expected to return to our sustainable harvest level of 53 MMBF.

Fiscal Year 2003 compared to 2002. Fee Timber revenue decreased \$382,000, or 1.6%, to \$22.9 million in 2003 from \$23.3 million in 2002. Harvest volumes were essentially identical between 2003 and 2002 at 45MMBF. A \$12 per MBF decline in average price realized resulted in the decline in revenue, which was partially offset by an increase in revenue from small timberland sales that represented \$288,000 of revenue in 2003 and \$44,000 of revenue in 2002. Operating income decreased \$530,000, or 5.2%, to \$9.7 million from \$10.2 million in 2002. The decrease in operating income is due to the decline in revenue and an increase in road maintenance and silviculture costs.

Export Log Market. Log revenue from our timberland ownership is significantly affected by export log market conditions. Sales to the export market totaled 18%, 11%, and 16% of log revenue for 2004, 2003, and 2002, respectively. The vast majority of our export log volume is sold to Japan. Indirect sales to the export market totaled 8.9 MMBF, 4.2 MMBF, and 6.3 MMBF of softwood logs for 2004, 2003, and 2002, respectively. The increase in volume sold through the export market in 2004 is representative of the strengthening export market experienced in 2004 combined with a 2004 harvest plan that included timber stands with a large component of export quality timber volume. A falling U.S. dollar and improved economic conditions in Japan brought on an improvement in the export market for logs. As export markets improve, volume that in a weaker market would be sold to the domestic market is diverted to the export market where log volume commands a higher price. The decline in volume sold to the export market in 2003 relative to 2002 is indicative of the soft economic conditions in Japan during 2003. The average price per MBF realized for export logs sold was \$658, \$574, and \$574 for 2004, 2003, and 2002, respectively.

Prices realized from export logs in 2004 increased 15% from 2003. This improvement is indicative of the general improvement in export market conditions discussed above and an improvement in the quality of logs sold to the export market in 2004. The 3,300-acre timberland acquisition completed in January 2004 contained a large component of high quality logs that command a premium price on the export market. Export prices realized did not change from 2002 to 2003. Low export prices realized in 2003 and 2002 were driven largely by weak economic conditions in Japan and structural changes to the market for logs.

Domestic Log Market. Domestic sawlog volumes were 38.9 MMBF, 32.0 MMBF, and 30.6 MMBF in 2004, 2003, and 2002, respectively. The increase in domestic volume sold in 2004 from 2003 is due to the overall increase in log volume harvested partially offset by the increase in volume sold to the export market. Average realized domestic log prices per MBF were \$571, \$514, and \$535 in 2004, 2003, and 2002, respectively. The prices realized from the domestic market in 2004 relative to 2003 is due to strong housing starts in the U.S. combined with the improved export market driving prices higher for the domestic market. Prices realized from domestic log sales declined from 2002 to 2003 due to two separate factors. First, lumber imports from Canada had increased during 2003 as a result of the softwood lumber dispute between the U.S. and Canada. As a result, log prices declined as domestic mills were competing with imported Canadian lumber. Second, the domestic log market was saturated with logs that were redirected away from weak Japanese export markets in 2003.

Other Timber Products. Pulpwood, hardwood, and other log volumes represented 21%, 20%, and 18% of total harvest volume for 2004, 2003, and 2002, respectively. The increase in pulpwood, hardwood and other log volumes in 2004 relative to 2003 is due to harvesting more low quality stands from the Hood Canal tree farm in 2004 which resulted in a large component of pulp log volume. The increase in other timber volume sold in 2003 relative to 2002 is due to the harvesting of lower-quality hemlock stands on the Hood Canal tree farm. Logs sold as pulpwood generally command lower prices than logs sold as sawlogs in the domestic market. To the extent log volume can be moved from pulpwood to domestic sawlog sorts, higher revenue is realized. Other log prices were \$309, \$292, and \$249 per MBF for 2004, 2003, and 2002, respectively. The increase in price realized on other timber products in 2004 as compared to 2003 results from the overall improvement in log prices forcing mills to raise prices to obtain log volume to keep mills operating. The improvement in price realized on pulpwood in 2003 relative to 2002 was caused by a decline in local pulp log inventories.

Harvest Volumes and Seasonality. We harvested the following timber for each year in the three-year period ended December 31, 2004:

Year	Softwood sawlogs		Pulp, hardwood, and other		Totals	
	Volume MMBF	Price \$/MBF	Volume MMBF	Price \$/MBF	Volume MMBF	Price \$/MBF
2004	47.8	\$ 587	12.5	\$ 309	60.3	\$ 529
2003	36.2	\$ 521	8.8	\$ 292	45.0	\$ 476
2002	36.9	\$ 542	8.2	\$ 249	45.1	\$ 488

The Partnership's 115,000 acres of timberland consist of the 71,000-acre Hood Canal tree farm and the 44,000-acre Columbia tree farm. The Hood Canal tree farm is located in the Hood Canal region of Washington State. Most of this tree farm acreage is at a relatively low elevation where harvest activities are possible year-round. As a result of this competitive advantage, we are often able to harvest and sell a greater portion of our annual harvest in the first half of the year when the log supply in the marketplace tends to be lower. During 2004 management decided to front load harvest toward the beginning of the year to take advantage of an improved export log market. Though not as dramatically as 2004, harvest activities were also front-loaded in 2003 as log prices had improved in the first quarter of 2003 over those experienced at the end of 2002. Harvest activities in 2002 were relatively consistent from quarter to quarter.

Harvest activities in 2005 may be concentrated during the months of winter and early spring. The Pacific Northwest is experiencing an unusually dry winter, which is expected to result in very dry conditions during the summer months. During dry conditions harvest activities are restricted or curtailed all together due to the risk of fire.

The percentage of annual harvest volume harvested by quarter for each year in the three-year period ended December 31, 2004 is as follows:

Year ended	Q1	Q2	Q3	Q4
December 31, 2004	34%	29%	22%	15%
December 31, 2003	29%	28%	27%	16%
December 31, 2002	16%	32%	27%	25%

Cost of Sales

Fee Timber cost of sales for each year in the three-year period ended December 31, 2004, are as follows:

Year ended	Depletion	Harvest, haul and other	Total cost of sales
December 31, 2004	\$ 5.1 million	\$ 9.6 million	\$ 14.7 million
December 31, 2003	2.9 million	7.3 million	10.2 million
December 31, 2002	3.1 million	7.3 million	10.4 million

Depletion costs from harvest activities averaged \$84, \$64, and \$68, per MBF for 2004, 2003, and 2002 respectively. The depletion rate changes each year as harvested timber stands are removed, or depleted, and new depletion "layers" are added to the overall depletion pool as merchantable timber stands reach the age of 40 years. The depletion rate in 2004 increased from the rate in 2003 due to the addition of two new depletion pools for two timberland acquisitions made in the last half of 2004. The decrease in depletion rate from 2003 to 2002 reflects the interplay between removing harvested timber stands and adding new depletion "layers."

Depletion cost in 2005 will include expense recognized from one of the separate depletion pools. These separate depletion pools were created when we purchased two separate timber tracts in 2004 that were almost entirely merchantable timber. We expect to harvest approximately 79 MMBF in 2005 and 21 MMBF of this harvest is expected to come from one of these separate pools resulting in depletion cost of \$7.6 million. The depletion cost on this harvest is expected to approximate the net stumpage otherwise realized on the sale of this particular timber, which will result in almost no net income impact from the harvest but will nonetheless generate operating cash flow. When the depletion cost from this separate pool is blended with depletion costs attributable to all other harvesting, we expect the overall weighted average depletion rate in 2005 will be approximately \$150/MBF.

Harvest, haul and other costs (excluding costs resulting from timberland sales) averaged \$159, \$160, and \$159 per MBF for 2004, 2003, and 2002, respectively. Harvest costs vary based upon the physical site characteristics of acreage harvested. Harvest units that are difficult to access, or that are located on steep hillsides, are more expensive to harvest. Haul costs vary based upon the distance between the harvest site and the customer's location. Costs to harvest and haul timber have on average increased slightly in 2004 due to the increase in the cost of fuel. This increase is not reflected in average harvest, haul and other costs in 2004 due to the mix of stands harvested in 2004 which were generally easier to access and harvest than those harvested in 2003. Average harvest, haul and other costs increased modestly from 2002 to 2003 due to slightly more difficult to access timber stands harvested during 2003. Costs resulting from timberland sales were zero, \$32,000, and \$20,000 in 2004, 2003, and 2002, respectively. We did not have any timberland sales in 2004.

Operating Expenses

Fee Timber operating expenses for each of the three years ended December 31, 2004, 2003, and 2002 were \$3.8 million, \$3.1 million, and \$2.7 million, respectively. Operating costs increased in 2004 relative to 2003 due to an increase in road maintenance and silviculture costs, partially resulting from the increase in harvest volume but also due to increased costs for road maintenance resulting from new road maintenance rules in Washington state. Operating costs increased in 2003 relative to 2002 due to added silviculture and road maintenance costs. Washington State has enacted new water quality rules, which have resulted in changes to the rules surrounding road maintenance and construction. As a result, culverts that do not comply with the new rules need to be replaced, which has resulted in an increase in road maintenance costs over the last couple years and is expected to continue into 2007. Silviculture costs represent the cost of projects that are undertaken for the purpose of increasing the quantity or quality of our timber inventory. Examples include management of competing vegetation and work performed to improve the seed stock available for us to grow seedlings for future reforestation.

Timberland Management & Consulting

Revenue and Operating Income

The Timberland Management & Consulting segment earns revenue by providing timberland management and forestry consulting services to timberland owners and managers. An additional aspect of that segment's activities is the development of timberland property portfolios on behalf of third-party clients. Management is currently marketing a timber fund to accredited investors interested in investing directly in timberland properties to diversify their portfolios.

The Timberland Management & Consulting segment has been in transition during 2004 following successful completion of our project to manage and dispose of 365,000 acres of industrial timberlands in December 2003. On January 1, 2005 we began managing 522,000 acres of timberland for Cascade Timberlands LLC, which is expected to have a positive impact on earnings in 2005. Revenue and operating income for the Timberland Management & Consulting segment for each year in the three-year period ended December 31, 2004, are as follows:

<u>Year ended</u>	<u>Revenue</u>	<u>Operating income (loss)</u>
December 31, 2004	\$1.6 million	(\$0.6) million
December 31, 2003	2.4 million	0.3 million
December 31, 2002	7.3 million	0.9 million [^]

[^] Net of \$583,000 of restructuring charges

Fiscal Year 2004 compared to 2003. Revenue decreased \$785,000, or 33%, to \$1.6 million in 2004 from \$2.4 million in 2003. Operating income declined \$870,000 to a loss of \$598,000 in 2004 from income of \$272,000 in 2003. The decrease in revenue and operating income was primarily a result of completing a timberland management and disposition project in December 2003. Operations in 2004 were focused on signing up new timberland management clients. We were successful in this endeavor and expect revenue and operating results for this segment to improve in 2005 as we began providing management services on 522,000 acres of timberland located in Oregon and Washington on January 1, 2005.

Fiscal Year 2003 compared to 2002. Revenue decreased \$4.9 million, or 67%, to \$2.4 million in 2003 from \$7.3 million in 2002. The decrease in revenue was primarily the result of a major client's decision to not renew its management contract with ORMLLC and the closure of our Canadian forestry consulting offices at the end of 2002. Operating income declined \$647,000, or 72%. Revenue in 2003 includes \$1.8 million from a major timberland management client. ORMLLC successfully completed the management assignment for this client in December 2003.

Operating Expenses

Timberland Management & Consulting operating expenses for each of the three years ended December 31, 2004, 2003, and 2002 were \$2.2 million, \$2.1 million, and \$6.4 million, respectively. Notwithstanding that we entered 2004 without a major client for this segment, we determined to maintain our investment in people and operating infrastructure given prospects for new business. Accordingly, operating expenses remained basically flat between 2004 and 2003. Operating expenses decreased \$4.3 million, or 67%, in 2003 relative to 2002 as a result of reducing the offices and support infrastructure supporting the Hancock Timber Resource Group (HTRG) contract and closure of the forestry consulting offices in Canada.

Investor Portfolio Management Business (IPMB)

IPMB operations include timberland management and portfolio development. An example of portfolio development is ORM Timber Fund I, L.P. If and when the fund is fully subscribed, both timberland management and asset management fees will be earned from administering the fund. These activities are, as well as the development and marketing costs associated with the fund, part of the IPMB. IPMB operations are currently conducted in ORMLLC and are subject to the following terms in the fund's Limited Partnership Agreement.

Limitation on Expenditures

The 1997 amendment to Pope Resources' Limited Partnership Agreement authorizing the IPMB strategy limits our cumulative net expenditures to \$5,000,000, including debt guarantees. As of December 31, 2004 cumulative expenditures incurred in pursuit of IPMB opportunities, including guarantees, were less than cumulative revenue generated. Therefore, cumulative net expenditures as of December 31, 2004 against the \$5,000,000 limit are zero.

Allocation of Income

The 1997 amendment to Pope Resources' Limited Partnership Agreement further specifies that income from the IPMB will be split using a sliding scale allocation method beginning at 80% to the Partnership's wholly-owned subsidiary, ORM, Inc., and 20% to Pope MGP, Inc., the managing general partner of the Partnership. The sliding scale allocation method will evenly divide IPMB income between ORM, Inc. and Pope MGP, Inc. once such income reaches \$7,000,000 in any given fiscal year.

Real Estate

Revenue and Operating Income

Real Estate segment revenue is derived from land sales and rental income from income-producing properties. Results from Real Estate operations are expected to vary significantly from year to year as we make multi-year investments in entitlements and infrastructure prior to selling entitled or developed land.

Revenue and operating income for the Real Estate segment for each year in the three-year period ended December 31, 2004, are as follows:

Year ended	Revenue	Operating income (loss)
December 31, 2004	\$4.5 million	\$1.6 million [^]
December 31, 2003	1.7 million	(0.5) million
December 31, 2002	1.6 million	(1.7) million [#]

[^] Includes \$466,000 of environmental remediation charges related to Port Gamble

[#] Includes \$730,000 of environmental remediation charges related to Port Gamble and \$165,000 of warranty charges related to Port Ludlow.

Fiscal Year 2004 compared to 2003. Revenue increased \$2.8 million, or 165%, to \$4.5 million in 2004 from \$1.7 million in 2003. Operating income for this segment also improved from a loss of \$476,000 in 2003 to operating income of \$1.6 million in 2004. The increase in revenue and operating income are due to an increase in land sales in 2004 relative to 2003. We had land sale revenue of \$3.6 million generating operating income of \$3.1 million in 2004, which compares favorably with 2003 land sale revenue of \$685,000 and operating income from land sales of \$475,000. The majority of land sale revenue came from two transactions. The first transaction was a \$1.9 million sale to Kitsap County of 426 acres that the County plans to develop into a park. This sale has the added benefit of enhancing the value of the Partnership's other development properties neighboring the planned park. The second transaction was for \$1.6 million and closed in December 2004. This transaction represented 210 acres that had a preliminary plat filed with the county thus increasing the value of the property to developers.

Fiscal Year 2003 compared to 2002. Revenue increased \$135,000, or 8%, to \$1.7 million from \$1.6 million in 2002. The increase in revenue is due to an increase in revenue generated at the Port Gamble townsite offset by a decrease in revenue from land sales. The Port Gamble townsite has benefited from increased management attention following the sale of Port Ludlow in 2001. Management has identified several buildings that were not being utilized to their full potential and, after making some capital improvements, has leased the properties at higher rates than previously realized. Land sale revenue has declined following the 2002 sale of all the lots in the Seabeck and Grandridge plats.

Cost of Sales

Real Estate cost of sales for each of the three years ended December 31, 2004, 2003, and 2002 were \$497,000, \$390,000, and \$1.0 million, respectively. The increase in cost of sales in 2004 is due to the increase in revenue generated from land sales. The decrease in cost of sales in 2003 relative to 2002 is due to the decrease in cost of sales attributable to land following the sale of the last Seabeck and Grandridge lots in 2002, which had a relatively high cost basis.

Operating Costs

Real Estate operating expenses for each of the three years ended December 31, 2004, 2003, and 2002 were \$2.4 million, \$1.8 million, and \$2.3 million, respectively. The increase in operating costs in 2004 relative to 2003 is due to the environmental remediation charge of \$466,000 combined with a small increase in repairs and maintenance costs at the Port Gamble townsite. The decrease in operating expense from 2002 to 2003 is due to \$730,000 of environmental remediation and \$165,000 of warranty charges in 2002 partially offset by an increase in operating expenses for the Gig Harbor property in 2003.

Environmental Remediation Costs

We have an accrued liability for estimated environmental remediation charges in and around the townsite of Port Gamble of \$474,000 and \$292,000 at December 31, 2004 and 2003, respectively. Port Gamble is a historic town that was owned by Pope & Talbot, Inc. (P&T) for decades until 1985 when the townsite and other assets were spun off to the Partnership. P&T continued to operate the townsite through 1995 and lease the millsite at Port Gamble until January 2002 when a settlement agreement was signed between the Partnership and P&T, which divided up the responsibility for paying environmental remediation charges in Port Gamble. The millsite is referred to as such because it was the location for many years of an operating lumber mill through 1995 that was dismantled by the end of 1996.

Activity in the environmental remediation liability consists of the following:

	Balances at the beginning of the period	Additions to accrual	Environmental remediation expenditures	Balances at the end of the period
Year Ended December 31, 2002	\$ 1,409,000	\$ 730,000	\$ 1,510,000	\$ 629,000
Year Ended December 31, 2003	629,000	—	337,000	292,000
Year Ended December 31, 2004	292,000	466,000	284,000	474,000

As of December 31, 2004 the majority of the clean up work was complete. Most of the expenditures now represent the cost of groundwater monitoring those specific sites where contaminants were excavated and removed. This monitoring is required until the site receives four clean test results over four consecutive quarterly periods. The remaining liability as of December 31, 2004 is expected to be adequate to cover remaining costs. If monitoring activities discover additional contamination, however, costs could exceed management's current estimate.

General and Administrative (G&A)

Fiscal Year 2004 compared to 2003. G&A costs increased \$144,000, or 5%, to \$3.0 million from \$2.8 million in 2003. The modest increase in G&A costs is due to an increase in the accrual for Supplemental Employee Retirement Plan (SERP) liabilities of \$80,000 combined with an increase in compensation cost. The beneficiary of the SERP is a retired CEO. G&A costs represented 8% of revenue for the year ended December 31, 2004 as compared to 11% of revenue for the comparable period in 2003.

We expect G&A in 2005 to increase as a result of the costs of implementing Section 404 of the Sarbanes Oxley Act. Section 404 requires management to assess the effectiveness of its internal control over financial reporting as of December 31, 2005. Our auditors, will then audit management's assessment and express an opinion on management's assessment and an opinion on the effectiveness of the Partnership's internal controls over financial reporting. Management's assessment and the auditor reports will be included in the Partnership's 10-K for the year ended December 31, 2005. The cost of this new requirement is currently estimated to result in additional G&A costs of approximately \$200,000 in 2005.

Fiscal Year 2003 compared to 2002. G&A costs decreased \$1.1 million, or 26%, to \$2.8 million from \$3.9 million in 2002. The decrease is due to reductions in administrative headcount following the loss of the HTRG contract in December of 2002. G&A costs represented 11% of revenue for the year ended December 31, 2003 as compared to 12% of revenue for the comparable period in 2002.

Taxes

Fiscal Year 2004 compared to 2003. Income tax expense represents the tax expense associated with the Partnership's taxable subsidiaries where third-party fee-for-service business is conducted. Tax expense in 2004 was zero compared with \$242,000 in 2003. Tax expense is expected to increase in 2005 as we start providing services under a new timberland management contract for 522,000 acres.

Fiscal Year 2003 compared to 2002. Tax expense in 2003 was \$242,000 compared with a tax benefit of \$788,000 in 2002. The income tax benefit in 2002 is the result of reducing the valuation allowance on a deferred tax asset relating to the realization of net operating losses from a subsidiary in Canada that was liquidated in the fourth quarter of 2002.

Minority Interest

Minority interest represents Pope MGP, Inc.'s share of earnings from the Partnership's IPMB. A description of IPMB can be found in the preceding discussion of operating results for the Timberland Management & Consulting segment.

Fiscal Year 2004 compared to 2003. The minority interest charge decreased \$47,000 in 2004 to zero from \$47,000 in 2003. The decline in minority interest is due to completion of our timberland disposition project in 2003 resulting in a loss on IPMB activities in 2004. This is expected to change in 2005 as we start providing services under the new timberland management contract as of January 1, 2005.

Fiscal Year 2003 compared to 2002. The minority interest charge decreased \$100,000 in 2003 to \$47,000 from \$147,000 in 2002. The decline in minority interest is due to the loss of the HTRG contract in December 2002. Minority interest in 2003 was generated through commissions earned on the disposition of timberland properties for a timberland management customer.

Supplemental Segment Information

The following table provides quarterly comparative operating information for our segments:

	SEGMENT INFORMATION (all amounts in \$000's)			
	Three months ended Dec.31,		Twelve months ended Dec. 31,	
	2004	2003	2004	2003
Revenues:				
Fee Timber	\$ 5,576	\$ 3,809	\$ 33,571	\$ 22,916
Timberland Management & Consulting	602	1,350	1,601	2,386
Real Estate	1,799	520	4,476	1,734
Total	\$ 7,977	\$ 5,679	\$ 39,648	\$ 27,036
EBITDDA:				
Fee Timber	\$ 2,960	\$ 1,717	\$ 20,319	\$ 12,676
TM&C	(10)	736	(510)	341
Real Estate	904	(195)	1,719	(391)
General & administrative and minority int	(801)	(691)	(2,648)	(2,504)
Total	\$ 3,053	\$ 1,567	\$ 18,880	\$ 10,122
EBITDDA = Earnings before interest taxes depreciation depletion and amortization				
Depreciation, depletion and amortization:				
Fee Timber	\$ 1,395	\$ 481	\$ 5,193	\$ 3,007
TM&C	22	19	88	69
Real Estate	19	23	133	85
General & administrative	69	94	338	385
Total	\$ 1,505	\$ 617	\$ 5,752	\$ 3,546
Operating income/(loss):				
Fee Timber	\$ 1,565	\$ 1,236	\$ 15,126	\$ 9,669
TM&C	(32)	717	(598)	272
Real Estate	885	(218)	1,586	(476)
General & administrative	(870)	(738)	(2,986)	(2,842)
Total	\$ 1,548	\$ 997	\$ 13,128	\$ 6,623
Log sale volumes (thousand board feet):				
Export conifer	1,153	654	8,885	4,234
Domestic conifer	5,414	4,893	38,869	31,999
Pulp conifer	1,422	1,267	9,648	6,829
Hardwoods	1,111	303	2,914	1,945
Total	9,100	7,117	60,316	45,007
Average price realizations (per thousand board feet):				
Export conifer	\$ 676	\$ 595	\$ 658	\$ 574
Domestic conifer	590	502	571	514
Pulp conifer	209	223	224	215
Hardwoods	617	630	588	560
Overall	544	467	529	476

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

General. The Partnership invested \$21.2 million in three separate timberland acquisitions during 2004. The first transaction was for 3,300 acres of timberland acquired from Plum Creek Timber Company, Inc. in January 2004. This property is being managed as part of the Columbia tree farm inasmuch as these acquired acres are intermingled with that larger holding. The second and third acquisitions totaling 1,400 acres closed during the fourth quarter of 2004 and were both opportunities to acquire in-holdings on the Partnership's existing Hood Canal tree farm and were forested with ready-to-harvest, merchantable timber. These fourth quarter acquisitions were funded by a combination of cash reserves and a line of credit. As of December 31, 2004 the balance on this credit facility was \$758,000. The January acquisition had an impact on 2004 harvest levels and will have a similar impact on 2005 harvest levels (and cash flows). One of the two fourth quarter 2004 acquisitions was a very small parcel and the mature timber thereon has been harvested so as to essentially pay for its acquisition. Harvests of mature timber on the other fourth quarter acquisition should produce significant cash flows in 2005 such that we expect its acquisition price also to be largely recovered in the near-term.

We generate operating cash flow through the sale of timber products, by providing timberland management and consulting services, and by selling land for development. Significant recurring uses of cash include the following: replanting and fertilizing trees; maintaining an adequate road system on our tree farms; investing in our development properties; funding annual debt payments on timber mortgages and local improvement district debt; and funding quarterly cash distributions. As a general rule, management expects operating cash flows will be sufficient to cover the foregoing and to build up cash reserves. As discussed below, however, we may incur additional debt in the future to fund timberland purchases or significant capital improvements on our development properties if management determines operating cash flows or cash reserves are not sufficient to cover these expenditures. In the fourth quarter of 2004 management entered into an agreement with Bank of America, N.A for a one-year \$10 million line of credit.

Operating cash flows. The table below provides the components of operating cash flows for each of the three years 2004, 2003, and 2002. Cash received from customers and paid to suppliers and employees results from the harvest and sale of forest products from our tree farms, timberland management and consulting services provided to timberland owners, and finally, the sale and management of our development properties.

Operating cash flow:	12/31/2004	12/31/2003	12/31/2002
Cash received from customers	\$ 40,513,000	\$ 29,582,000	\$ 33,997,000
Cash paid to suppliers and employees	(19,693,000)	(17,961,000)	(21,841,000)
Interest received	105,000	306,000	416,000
Interest paid	(3,058,000)	(3,117,000)	(3,382,000)
Income taxes paid	(13,000)	(169,000)	(185,000)
Total	\$ 17,854,000	\$ 8,641,000	\$ 9,005,000

In 2004 cash provided by operations increased \$9.2 million to \$17.9 million from \$8.6 million in 2003. The majority of this increase was produced by the Fee Timber segment due to an increase in timber volume harvested from 45 MMBF in 2003 to 60 MMBF in 2004 combined with a \$53 per MBF, or 11%, increase in realized prices on log volume sold in 2004. The Real Estate segment also contributed to improved operating cash flow with an increase in cash provided by land sales of \$2.1 million. Cash flow from operating activities is expected to increase in 2005 as we increase our annual harvest to 79 MMBF from 2004's level of 60 MMBF.

In 2003 cash provided by operations decreased \$364,000, or 4%, to \$8.6 million from \$9.0 million in 2002. The decrease in cash provided by operations is due primarily to the loss of the HTRG timberland management contract in December 2002. In addition to the loss of cash generated from this contract we made restructuring payments of \$466,000 during 2003 to adjust our operating infrastructure following the loss of this portion of our operations. Offsetting these decreases in operating cash flow was a \$1.1 million decrease in cash paid for the environmental remediation at Port Gamble and an increase in cash generated by the Fee Timber segment as a result of the timing of harvest activities at the end of 2002 and during 2003.

Cash used in investing activities. The table below represents the components of cash used in investing activities for the three years 2004, 2003, and 2002. Recurring investing activities consist primarily of tree planting, road building and silviculture activities on our tree farms and investment in our development properties to acquire the entitlements necessary to make further development of the properties possible. In 2004 we invested \$21.2 million in three separate transactions to acquire 4,700 acres of timberland.

Investing activities:	12/31/2004	12/31/2003	12/31/2002
Timberland acquisitions	\$ (21,240,000)	\$ —	\$ —
Land buildings and equipment	(701,000)	(624,000)	(668,000)
Development properties	(1,484,000)	(613,000)	(280,000)
Timber and roads	(1,075,000)	(780,000)	(1,210,000)
Proceeds from the sale of fixed assets	—	17,000	482,000
Cash used in investing activities	\$ (24,500,000)	\$ (2,000,000)	\$ (1,676,000)

Cash used in investing activities increased \$22.5 million from 2004. The increase is primarily due to the acquisition of 4,700 acres of timberland in 2004. The timberlands acquired in these transactions were forested with a large component of merchantable timber that enabled the Partnership to increase its annual harvest in 2004 to 60 MMBF from 45 MMBF in 2003. These timberland acquisitions and related increased harvest activities also resulted in an increase in investments in timber and roads (higher replanting and road building expenditures). Investments in development properties increased in 2004 to \$1.5 million from \$613,000 in 2003. This increase correlates to our heightened intensity of activity on our 320-acre property at Gig Harbor, Washington given the expectation of land sales at this parcel beginning in 2006. The \$1.5 million in development property additions includes \$411,000 for a land acquisition bordering the Gig Harbor site and \$116,000 for a parcel at the Port Gamble townsite. These acquisitions represent strategic opportunities to acquire acres bordering on our existing properties that management expect will add value to the Partnership's holdings.

Cash used in investing activities increased \$324,000, or 19%, in 2003 to \$2.0 million from 2002 due to an increase in investments in development properties, a decrease in proceeds from the sale of fixed assets netted against a decrease in permanent road construction (temporary roads and road repair are expensed as incurred). The increase in development property capital expenditures has been driven by an increase in activities on our development property at Gig Harbor. In 2002, we sold an office building acquired with the Columbia tree farm that resulted in proceeds from sales of fixed assets of nearly \$0.5 million.

Cash used in financing activities. The table below represents the components of cash used in financing activities for the three years 2004, 2003, and 2002. Our financing activities primarily result from payments made on the timber mortgages, unitholder distributions, and distributions to the managing general partner, Pope MGP, for its minority interest in the IPMB.

Financing activities:	12/31/2004	12/31/2003	12/31/2002
Mortgage/LID payments	\$ (1,979,000)	\$ (1,662,000)	\$ (1,110,000)
Cash distribution to unitholders	(1,989,000)	(1,084,000)	(452,000)
Net draw on line of credit	758,000	—	—
Proceeds from option exercises	310,000	—	—
Minority interest distribution	(58,000)	(161,000)	(187,000)
Cash used in financing activities	\$ (2,958,000)	\$ (2,907,000)	\$ (1,749,000)

Cash used in financing activities increased \$51,000 in 2004. This increase is due to an unscheduled pay down of our timber mortgage of \$347,000, an increase in cash payments on Local Improvement District (LID) debt, and an increase in our quarterly distributions. The unscheduled mortgage payment was made following the sale of 426 acres to Kitsap County. These acres were included as collateral under the timber mortgage and the partial deed release required some incremental debt repayment. In addition, the Partnership began making payments on a \$623,000 LID in 2004 that represents the Partnership's share of the cost of a new road at the Gig Harbor property that has had a positive impact on the value of that property. In the third quarter of 2004 we increased our quarterly distribution rate from \$.07 to \$.15 per unit as a result of the increase in cash generated from operations in 2004.

Cash used in financing activities increased \$1.2 million, or 66%, to \$2.9 million in 2003 compared to 2002. Half this increase is due to an increase in required principal payments on our timber mortgages from \$1.0 million in 2002 to \$1.5 million in 2003. The increase in required annual principal payments under the mortgages was negotiated and scheduled at the time of the acquisition of the Columbia tree farm in 2001. The other half of the increase is due to higher quarterly cash distributions to unitholders. In 2002 we made two quarterly distributions totaling \$0.10 per unit and in 2003 we made four quarterly distributions totaling \$0.24 per unit.

Expected future changes to cash flows

Operating cash flows . As discussed above, we plan to increase the Partnership's annual harvest volume from 60 MMBF in 2004 to 79 MMBF in 2005. As previously discussed, this increase is due to two of the timberland acquisitions in 2004. The increased harvest level will translate to higher cash flow from operations in 2005. Assuming we do not acquire any additional timberland in 2005, the annual harvest in 2006 is expected to return to our sustainable harvest level of 53 MMBF.

Investing Activities. Investing activities in 2005 include a planned \$5 million co-investment in ORM Timber Fund I, LP (the "Fund"). The Fund is currently being marketed to institutional investors and high net worth individuals as a vehicle for investment in timberlands with a raised-capital target of \$50 million. The Partnership has agreed to co-invest 10% of the total amount of equity capital raised by the Fund. This investment will not be made until the Fund is fully subscribed and timberland acquisitions have been identified. In addition to the Fund, expenditures on our project at Gig Harbor are expected to total \$7.0 million in 2005 and capital expenditures on our Bremerton property are expected to total \$2.4 million in 2005. Gig Harbor capital expenditures in 2005 are expected to include a new water tank and a new access road on the property. Capital expenditures on the Bremerton property are expected to include a storm water retention facility and road and sewer extension.

Financing Activities. When the Fund is fully subscribed we may need to raise additional capital to make our co-investment in the Fund. Additionally, management is always looking for opportunities to add to our timberland portfolio where expected returns meet management's expectations. The capital infusion required for Gig Harbor is expected to be only short-term to bridge the time between making infrastructure investments and closing land sales (such as our 17-acre sale to Costco Wholesale Corporation). Management anticipates using short-term bank debt to bridge this capital need. We currently have a one-year, \$10.0 million line of credit facility in place that we will renew if necessary.

Our debt-to-total-capitalization ratio as of December 31, 2004, as measured by the book and market value of our equity, was 40% and 24%, respectively. Should a financing need arise, management is comfortable that there is room to take on some debt with the ratio at these levels, since our loan covenant which limits debt-to-total-capitalization to 50% is measured against the lower of these two calculations. The Hood Canal tree farm secures the Partnership's current timberland mortgage while the Columbia tree farm is not currently used as collateral on any debt obligations. The Partnership's strong financial position and historically low interest rates makes borrowing relatively inexpensive and easy to obtain.

Risks and Uncertainties

A number of known risks, some of which are discussed below, as well as various unknown risks and uncertainties, may cause our revenues to fall short of management's expectations. Although certain statements in this report are forward looking in nature, these known and unknown risks make it impossible for management to predict with any degree of certainty either quantitative factors such as cash flow, results of operations or financial condition, or qualitative factors such as management's plans, objectives, or responses to various events or occurrences. Readers therefore should recognize that statements other than those of historical fact are not guarantees or assurances of future performance, but are "forward looking statements" within the meaning of Federal Securities Law. Some of our forward looking statements can be identified by the use of predictive terms such as "expect," "anticipate," "will," "might," "may," "plans" and words of similar meaning or construction. The following section discusses some of the known risks that may cause our actual financial results to fall materially short of management's expectations, or that may cause management to deviate from its expressed intentions or predictions. Readers should also recognize that this list is not exhaustive, and in addition to those factors listed below, a wide range of risks faced by most or all participants in the timber industry or in international trade, as well as various unexpected events or conditions, may adversely impact our business.

Competition generally. We compete against much larger companies in each of our business segments. We compete with these companies for management and line personnel, as well as for purchases of relatively scarce capital assets such as land and standing timber and for sales of our products. These larger competitors may have access to larger amounts of capital and significantly greater economies of scale, and they may be better able to absorb the risks of our line of business. Moreover, the timber industry has experienced significant consolidation in recent years, and as that consolidation occurs, our relative market share decreases and the relative financial capacity of our competitors increases. While management believes the Partnership is at a competitive advantage over some of these companies because of our lack of vertical integration into forest products manufacturing, our advantageous tax structure, and management's attempts to diversify our asset base, we cannot assure readers that competition will not have a material and adverse effect on our results of operations or our financial condition.

Fee Timber competition and demand issues. Fee Timber revenue is generated primarily through the sale of softwood logs to the domestic markets and export intermediaries located in western Washington. The market for these products is significantly affected by fluctuations in U.S. and Japanese economies and in relative currency exchange rates. The market for our timber products is generally negatively affected by the rise in the use of engineered wood products that substitute for solid-sawn products. The rise in the use of engineered wood products results in less of a premium for larger-diameter Douglas-fir logs. Many of the engineered wood products are made from lower quality logs, which over time has eroded log prices and created more of a "commoditization" of wood fiber. While timber sold has realized lower prices with the rise in engineered wood products, wood fiber is expected to remain an important commodity that management expects will continue to be used extensively for building.

The proximity of lumber mills to the timberland supplying these mills is important to our profitability. In prior years Western Washington experienced a trend towards consolidation of lumber mills to fewer, larger volume manufacturers. Local demand for our products has remained strong through the trend towards consolidation of lumber mills in western Washington. This trend has eased in 2004 with the actual and announced opening of several mills in the Puget Sound area of Washington state. If in the future consolidation leads to less local competition for wood fiber, our profitability could be negatively impacted.

Canadian lumber imports declined in 2004 as British Columbia's timber harvest volume declined due to hot dry weather and other production interruptions. Prior to 2004, Canadian lumber imports had increased for a few years. Lumber supply from Canada can cause a weakening in log prices in the U.S., when volume from Canada results in lower lumber prices for domestic mills which in turn can have a negative affect on log price and demand.

Our ability to grow and harvest timber can be significantly impacted by legislation to restrict or stop forest practices. Restrictions to logging, planting, road building, fertilizing, managing competing vegetation, and other activities can significantly increase the cost or reduce available inventory thereby reducing future income.

Timberland Management & Consulting. One or two clients have traditionally dominated revenue in the Timberland Management & Consulting segment. In December 2003 this segment completed a timberland management and disposition project, which left the Timberland Management & Consulting segment without a major client for the first time since 1998. In January 2005 we began a new timberland management assignment for 522,000 acres. That assignment is expected to represent the majority of revenue for the Timberland Management & Consulting segment in 2005. In 2004 over 50% of Timberland Management & Consulting was generated through work for one client. This work was performed as part of a project related to the long-term management agreement that began in January 2005.

Real Estate. The value of our real estate investments is subject to changes in the economic and regulatory environment. Our real estate investments are long-term in nature, which raises the risk of unforeseen changes in the economy or laws surrounding development activities having an adverse affect on our investments.

Tax Status. The Partnership is a Master Limited Partnership (MLP) and is therefore not subject to income taxes. If that changed due to a change in tax law (or interpretation of current tax law) such that the Partnership became subject to income taxes, operating results would be adversely affected.

Contractual Obligations, Commercial Commitments and Contingencies

Our commitments at December 31, 2004 consist of performance bonds, operating leases, and purchase obligations entered into in the normal course of business.

Obligation or Commitment	Total	Payments Due By Period/ Commitment Expiration Period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Total debt	\$ 35,766,000	\$ 1,602,000	\$ 3,000,000	\$ 2,750,000	\$ 28,414,000
\$10 million line of credit	758,000	758,000			
Performance bonds	68,000				68,000
Operating Leases	217,000	129,000	87,000	1,000	
Unconditional purchase obligations	None				
Other long term obligations	704,000	468,000	56,000	50,000	130,000
Total contractual obligations	\$ 37,513,000	\$ 2,957,000	\$ 3,143,000	\$ 2,801,000	\$ 28,612,000

We have debt totaling \$35.8 million with the contractual maturities described in Note 2 of Partnership's Consolidated Financial Statements included with this report plus a \$758,000 balance on a revolving line of credit. Cash paid for interest on the revolving line of credit was \$3,000 in 2004. The \$10.0 million revolving line of credit expires on October 31, 2005. The Partnership has committed to invest 10% of equity capital in ORM Timber Fund I, LP once a timberland acquisition is closed by the fund. Targeted equity capital for this fund is \$50 million and at that level the Partnership's commitment would be \$5.0 million. The Partnership will make this investment once the fund is fully subscribed and timberland acquisitions have been identified.

Other long-term obligations include the Partnership's \$474,000 contingent liability for environmental remediation in and around the Port Gamble townsite and \$230,000 liability for a supplemental employment retirement plan. We expect to spend \$468,000 of these liabilities in 2004 and \$236,000 thereafter.

The Partnership may from time to time be a defendant in lawsuits arising in the ordinary course of business. Management believes that loss to the Partnership, if any, will not have a material adverse effect to the Partnership's consolidated financial condition or results of operations.

Off-Balance Sheet Arrangements

The Partnership is not a party to off-balance sheet arrangements and does not hold any variable interests in unconsolidated entities.

Capital Expenditures and Commitments

Projected capital expenditures in 2005 of \$12.7 million are currently expected to include \$7.0 million for the Gig Harbor site and \$2.4 million for the Bremerton site. The Partnership also expects to make half of its planned investment in the Timber Fund of \$5.0 million in 2005. These expenditures could be increased or decreased as a consequence of future economic conditions. Projected capital expenditures at the Gig Harbor and Bremerton site are subject to permitting timetables and progress towards closing on specific land sale transactions, especially those with Costco Wholesale Corp. and Kitsap County Consolidated Housing Authority.

Government Regulation

Compliance with laws, regulations, and demands usually involves capital expenditures as well as operating costs. We cannot easily quantify future amounts of capital expenditures required to comply with laws, regulations, and demands, or the effects on operating costs, because in some instances compliance standards have not been developed or have not become final or definitive. Accordingly, at this time we have not included herein a quantification of future capital requirements to comply with any new regulations being developed by the United States or Canadian regulatory agencies.

Additionally, many federal and state environmental regulations, as well as local zoning and land use ordinances, place limits upon various aspects of our operations. These limits include restrictions on our harvest methods and volumes, remediation requirements that may increase our post-harvest reclamation costs, ESA limitations on our ability to harvest in certain areas, zoning and development restrictions that impact our real estate segment, and a wide range of other existing and pending statutes and regulations. Various initiatives are presented from time to time that seek further restrictions on timber and real estate development businesses, and although management currently is not aware of any material noncompliance with applicable law, we cannot assure readers that we ultimately will be successful in complying with all such regulations or that additional regulations will not ultimately have a material adverse impact upon our business.

ACCOUNTING MATTERS

Accounting Standards Not Yet Implemented

In December 2004, the FASB released its revised standard, SFAS No. 123R (SFAS 123R”), Share-Based Payment. SFAS 123R requires that a public entity measure the cost of equity based service awards based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the vesting period. A public entity will initially measure the cost of liability based service awards based on its current fair value and the fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. Adoption of SFAS 123R is required for fiscal periods beginning after June 15, 2005. The Company is evaluating SFAS 123R and believes it will likely result in recognition of additional non-cash stock-based compensation expense and accordingly would decrease net income in amounts, which likely will be considered material. There will be no effect on cash, working capital or total stockholders’ equity.

The Partnership is currently negotiating with several potential investors in ORM Timber Find I, LP (the Fund). The Fund has a target invested capital amount of \$50 million. Upon funding this \$50 million target, the Fund will seek to invest the raised capital in timberland investments. The Partnership will invest 10% of the equity capital in the Fund so that, for example, if the target of \$50 million is reached Pope Resources will have contributed \$5 million of that equity total. The Fund is presently expected to be consolidated into the Partnership’s financial statements since an indirect subsidiary of the Partnership (Olympic Resource Management LLC) will act as manager and general partner of the Fund. However, Emerging Issues Task Force Issue No. 04-5, “Investors’ Accounting for an Investment in a Limited Partnership when the Investors is the Sole General Partner and the Limited Partners have Certain Rights” when finally concluded and issued, could require that the Partnership not consolidate, but rather account for the Fund using the equity method of accounting. Use of either the consolidation or equity method of accounting are expected to result in comparable net income and Partners’ capital in the consolidated financial statements of the Partnership.

Critical Accounting Policies and Estimates

We believe our most critical accounting policies and estimates include those related to management’s calculation of timber depletion and liabilities related to matters such as environmental remediation, potential asset impairments, and valuation allowance on deferred tax assets. In relation to liabilities, potential impairments and other estimated charges, it is management’s policy to conduct ongoing reviews of significant accounting policies and assumptions used in the preparation of the financial results of the Partnership. The assumptions used are tested against available and relevant information and reviewed with subject-matter experts for consistency and reliability. During the preparation of financial results, when facts or circumstances indicate that asset impairment may exist, tests are conducted to ascertain that the net book carrying values of these assets are not in excess of fair values. These tests use current market information, if available, or other generally accepted valuation methods, such as future cash flows. When the use of estimates is necessary, an exact answer is unlikely, and therefore, the reporting within a range of likely outcomes is used in the preparation of the financial statements. Tests are also applied in order to be reasonably assured that liabilities are properly reflected on the records of the Partnership and that the notes to the financial statements are prepared in a fashion that informs readers of possible outcomes and risks associated with the conduct of business.

Depletion. Depletion represents the cost of timber harvested and is charged to operations by applying a depletion rate to the volume harvested during the period. The depletion rate is calculated on January 1st of each year by dividing the Partnership's cost of merchantable timber by the volume of merchantable timber. Merchantable timber is defined as timber that is equal to or greater than 40 years of age. To calculate the depletion rate the Partnership uses a combined pool when the characteristics of the acquired timber are not significantly different from the Partnership's existing timberlands. Prior to the fourth quarter of 2004, all of the Partnership's timberlands were aggregated into one depletion cost pool. The Partnership acquired approximately 1,400 acres of timberland in the last quarter of 2004 that was accounted for in separate depletion pools. These acquisitions were almost entirely merchantable timber, which made the inventory characteristics of these acquisitions sufficiently different from our existing timber pool to indicate separate depletion pools were warranted under our accounting policy. Depletion cost in 2005 will include expense recognized from one of the separate depletion pools. We expect to harvest approximately 21 MMBF from this pool in 2005 resulting in depletion cost of \$7.6 million. The depletion cost on this harvest is expected to approximate the net stumpage realized on the sale, which will result in almost no net income impact from the harvest but will generate operating cash flow. As a result of this additional depletion in 2005 we expect the overall weighted average depletion rate in 2005 will be approximately \$150/MBF.

Inventory volumes take into account the applicable state and federal regulatory limits on timber harvests as applied to the Partnership's properties, including the new Forests and Fish law that supplements Washington State's forest practice regulations to provide for expanded riparian management zones, wildlife leave trees, and other harvest restrictions. Timber inventory volume is accounted for by the Partnership's standing timber inventory system, which utilizes annual statistical sampling of the timber (cruising) together with adjustments made for estimated annual growth and the depletion of areas harvested.

The standing inventory system is subject to two processes each year to monitor accuracy. The first is the annual cruise process and the second is a comparison of (a) volume actually extracted by harvest to (b) inventory in the standing inventory system at the time of the harvest. A "cruise" represents a physical measurement of timber on a specific set of acres. The cruise process is completed when the physical measurement totals are compared to the volume captured in the standing inventory system. Only productive acres with timber that is at least 20 years old are selected as subject to a cruise. The Partnership cruised 20% of its productive acres with 20-year-old or greater timber in 2004, 2003, and 2002 and plans to continue to cruise 20% of productive acres in 2005 before reducing this level to 10% in subsequent years. Specific acres are first selected for cruising with a bias towards those acres that have gone the longest without a cruise and, second, with a bias towards those acres that have been growing the longest. As the cruise is being performed, only those trees with a breast height diameter (approximately 4.5 feet from the ground) of at least 6 inches are measured for inclusion in the inventory.

A 5% change in estimated timber inventory volume would have changed 2004 depletion expense by \$230,000.

Environmental remediation. The environmental remediation liability represents an estimate of payments required to remedy and monitor certain areas in and around the townsite and millsite of Port Gamble. Port Gamble is a historic town that was owned and operated by P&T, a related party, until 1985 when the townsite and other assets were spun off to the Partnership. P&T continued to operate the millsite until 1996 and leased the millsite and townsite at Port Gamble through January 2002, at which point P&T signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties.

The environmental remediation liability on the Partnership's books is based upon an estimate of the Partnership's portion of the clean-up costs under this agreement with P&T. Based on information provided by consultants the Partnership estimated that the range of costs remaining to complete this project at December 31, 2004 is between \$474,000 and \$556,000. During 2004 the environmental liability increased \$466,000 as a result of costs to complete the Partnership's share exceeding the original estimate and decreased \$284,000 for actual expenditures. While the majority of the Partnership's portion of the clean up efforts is complete, there remains the possibility that the remaining remediation or monitoring activities may exceed estimates, resulting in an additional environmental remediation charge. Management will continue to monitor the remaining liability against estimates to complete to determine if an adjustment to the environmental remediation liability is necessary to accurately represent management's estimate of remaining cost to complete the project.

Land held for development. Land held for development represents the Partnership's cost basis in land that has been identified as having greater value as development than timber property. Our Real Estate department works with these properties to establish entitlements with city and county officials that allow for further development. These entitlement costs are evaluated for capitalization based upon the expected value derived from the efforts. For example, costs incurred to change Urban Growth Area boundaries are expensed as incurred due to the difficulty of successfully changing these boundaries but the cost of applying for a preliminary plat is generally capitalized as these efforts have a high likelihood of success and thus increase the value of the property. Those properties that are either under contract or where the Partnership is planning to sell within the next 12 months are classified as a current asset under Land Held for Sale.

Deferred tax assets. The Partnership has a United States subsidiary corporation that has \$671,000 of deferred tax assets as of December 31, 2004. The majority of this balance relates to net operating loss carryforwards resulting from the liquidation of our subsidiary in Canada. Management evaluates the likelihood of earning taxable income to absorb net operating loss carryforwards each reporting period to determine if deferred tax assets are likely to be utilized. The Partnership has concluded that deferred tax assets as December 31, 2004 are more-likely-than-not to be realized.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

As of December 31, 2004, the Partnership had \$11.2 million with a fixed interest rate of 9.65%, \$23.8 million with a fixed interest rate of 7.63%, and Local Improvement District debt of \$0.8 million with fixed interest rates of 5.03% to 6.5%. This fixed rate debt totals \$35.8 million outstanding with a fair value of approximately \$39.7 million based on current interest rates for similar financial instruments. A change in the interest rate on fixed rate debt will affect the fair value of the debt, whereas a change in the interest rate on variable rate debt will affect interest expense and cash flows. A hypothetical 1% change in prevailing interest rates would change the fair value of the Partnership's fixed-rate long-term debt obligations by \$1.9 million

Since the Partnership's currently outstanding debt is fixed rate, net income and cash flows are not affected when market interest rates change.

The Partnership also has a \$10.0 million line of credit with a balance of \$758,000 as of December 31, 2004. Interest on this obligation is variable using either the bank's prime rate or LIBOR plus 1.25 percentage points.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

POPE RESOURCES

A DELAWARE LIMITED PARTNERSHIP

YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Unitholders
Pope Resources, A Delaware Limited Partnership:

We have audited the accompanying consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries (collectively, the Partnership) as of December 31, 2004 and 2003, and the related consolidated statements of operations, partners' capital and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2004. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule listed in the index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall the financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Seattle, Washington
February 3, 2005

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003
(IN THOUSANDS)

ASSETS	2004	2003
Current assets:		
Cash and cash equivalents	\$ 757	\$ 10,361
Accounts receivable, net of allowance for doubtful accounts of \$- and \$13	1,120	865
Land held for sale	152	135
Current portion of contracts receivable	606	872
Prepaid expenses and other	195	545
	2,830	12,778
Properties and equipment, at cost:		
Land held for development	9,074	7,708
Land	13,958	13,092
Roads and timber, net of accumulated depletion of \$26,418 and \$21,335	64,485	48,203
Buildings and equipment, net of accumulated depreciation of \$6,034 and \$5,537	3,166	3,107
	90,683	72,110
Other assets:		
Contracts receivable, net of current portion	158	196
Other	1,197	1,224
	1,355	1,420
Total assets	\$ 94,868	\$ 86,308
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities:		
Accounts payable	\$ 597	\$ 536
Accrued liabilities	1,492	1,325
Environmental remediation	468	100
Current portion of long-term debt	1,602	1,631
Minority interest	30	89
Operating line of credit	758	—
Deposit	70	32
Deferred profit	918	103
	5,935	3,816
Total current liabilities		
Long-term debt	34,164	36,114
Other long-term liabilities	236	342
Commitments and contingencies		
Partners' capital (units outstanding: 4,539 and 4,518)	54,533	46,036
Total liabilities and partners' capital	\$ 94,868	\$ 86,308

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

(IN THOUSANDS, EXCEPT PER UNIT INFORMATION)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Revenues:			
Fee Timber	\$ 33,571	\$ 22,916	\$ 23,298
Timberland Management & Consulting	1,601	2,386	7,295
Real Estate	4,476	1,734	1,599
	<hr/>	<hr/>	<hr/>
Total revenues	39,648	27,036	32,192
Costs and expenses:			
Cost of sales:			
Fee Timber	(14,687)	(10,150)	(10,364)
Real Estate	(497)	(390)	(990)
	<hr/>	<hr/>	<hr/>
Total cost of sales	(15,184)	(10,540)	(11,354)
Operating expenses:			
Fee Timber	(3,758)	(3,097)	(2,735)
Timberland Management & Consulting (TM&C)	(2,199)	(2,114)	(5,793)
TM&C restructuring costs	—	—	(583)
Real Estate	(1,927)	(1,820)	(1,546)
Real Estate environmental remediation	(466)	—	(730)
General & Administrative (G&A)	(2,986)	(2,842)	(3,774)
G&A restructuring costs	—	—	(90)
	<hr/>	<hr/>	<hr/>
Total operating expenses	(11,336)	(9,873)	(15,251)
Operating income (loss):			
Fee Timber	15,126	9,669	10,199
Timberland Management & Consulting	(598)	272	919
Real Estate	1,586	(476)	(1,667)
Unallocated G&A	(2,986)	(2,842)	(3,864)
	<hr/>	<hr/>	<hr/>
Total operating income	13,128	6,623	5,587
Other income (expense):			
Interest expense	(3,052)	(3,089)	(3,324)
Interest income	100	283	430
	<hr/>	<hr/>	<hr/>
Total other expense	(2,952)	(2,806)	(2,894)
Income before income taxes and			
Minority interest	10,176	3,817	2,693
Income tax benefit (expense)	—	(242)	788
	<hr/>	<hr/>	<hr/>
Income before minority interest	10,176	3,575	3,481
Minority interest	—	(47)	(147)
	<hr/>	<hr/>	<hr/>
Net income	\$ 10,176	\$ 3,528	\$ 3,334
Earnings per unit:			
Basic	\$ 2.25	\$ 0.78	\$ 0.74
	<hr/>	<hr/>	<hr/>
Diluted	\$ 2.22	\$ 0.78	\$ 0.74
	<hr/>	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
AND COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

(IN THOUSANDS)

	General Partners	Limited Partners	Total
January 1, 2002	\$ 810	\$ 39,863	\$ 40,673
Net income	44	3,290	3,334
Translation income	1	42	43
Comprehensive income	45	3,332	3,377
Distributions	(6)	(446)	(452)
December 31, 2002	849	42,749	43,598
Net income	47	3,481	3,528
Translation loss	—	(6)	(6)
Comprehensive income	47	3,475	3,522
Distributions	(14)	(1,070)	(1,084)
December 31, 2003	882	45,154	46,036
Net income	135	10,041	10,176
Distributions	(26)	(1,963)	(1,989)
Proceeds from option exercises	—	310	310
December 31, 2004	\$ 991	\$ 53,542	\$ 54,533
Weighted average units outstanding :	12/31/2004	12/31/2003	12/31/2002
Basic	4,522	4,518	4,518
Diluted	4,594	4,522	4,520

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002

(IN THOUSANDS)

	2004	2003	2002
Cash flows from operating activities:			
Cash received from customers	\$ 40,513	\$ 29,582	\$ 33,997
Cash paid to suppliers and employees	(19,693)	(17,961)	(21,841)
Interest received	105	306	416
Interest paid	(3,058)	(3,117)	(3,382)
Income taxes paid	(13)	(169)	(185)
	17,854	8,641	9,005
Cash flows from investing activities:			
Capital expenditures	(3,260)	(2,017)	(2,158)
Proceeds from sale of fixed assets	—	17	482
Timberland acquisition	(21,240)	—	—
	(24,500)	(2,000)	(1,676)
Cash flows from financing activities:			
Cash distributions to unitholders	(1,989)	(1,084)	(452)
Net draw on line of credit	758	—	—
Repayment of long-term debt	(1,979)	(1,662)	(1,110)
Proceeds from option exercises	310	—	—
Minority interest distribution	(58)	(161)	(187)
	(2,958)	(2,907)	(1,749)
Net cash used in financing activities	(2,958)	(2,907)	(1,749)
Net increase (decrease) in cash and cash equivalents	(9,604)	3,734	5,580
Cash and cash equivalents:			
Beginning of year	10,361	6,627	1,047
	\$ 757	\$ 10,361	\$ 6,627
	\$ 757	\$ 10,361	\$ 6,627
Reconciliation of net income to net cash provided by operating activities:			
Net income	\$ 10,176	\$ 3,528	\$ 3,334
Cost of land sold	209	200	189
Cost of Art sold	—	175	—
Minority interest	—	47	165
Depreciation and amortization	660	658	779
Depletion	5,092	2,888	3,085
Deferred tax expense	—	242	(975)
Loss on retirement of PP&E	—	—	292
Increase (decrease) in cash from changes in operating accounts:			
Accounts receivable	(255)	903	(649)
Work in progress	—	40	343
Contracts receivable	304	1,676	2,087
Other current assets	336	(384)	158
Loan fees and other	—	—	32
Accounts payable and accrued liabilities	228	(424)	336
Restructuring	—	(466)	441
Environmental remediation	182	(337)	(780)
Deposits	38	(1)	24
Deferred profit	815	(32)	22
Other long-term liabilities	80	(50)	84
Other, net	(11)	(22)	38
	\$ 17,854	\$ 8,641	\$ 9,005
Net cash provided by operating activities	\$ 17,854	\$ 8,641	\$ 9,005

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations:

Pope Resources, A Delaware Limited Partnership (the "Partnership") is a publicly traded limited partnership engaged principally in managing timber resources on its own properties as well as those owned by others. Pope Resources' active subsidiaries include ORM, Inc., which is responsible for managing Pope Resources' timber properties; Olympic Resource Management LLC, which provides timberland management and consulting activities and is responsible for developing the timber fund business; OPG I, LLC, which manages the Port Gamble town and mill sites and land that is classified as development property; and OPG Properties LLC, which owns land that is held as development property.

The managing general partner is Pope MGP, Inc. The Partnership operates in three business segments: Fee Timber, Timberland Management & Consulting, and Real Estate. Fee Timber represents the growing and harvesting of trees from owned properties. Timberland Management & Consulting represents management and consulting services provided to third party owners of timberlands. Real Estate consists of obtaining entitlements for properties that have been identified as having value as developed residential or commercial property and operating the Partnership's existing commercial and residential properties in Kitsap County, Washington.

Principles of consolidation:

The consolidated financial statements include the accounts of the Partnership and its subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

Minority interest:

Minority interest represents Pope MGP, Inc.'s interest in the Investor Portfolio Management Business (IPMB) (see Note 8) and has been classified as a current liability since the minority interest's share in income is generally distributed on an annual basis.

Use of estimates in financial statements:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cost of sales:

For statement of operations presentation, cost of sales consists of the Partnership's cost basis in homes, lots, timber, other inventory sold, and direct costs incurred to make those assets saleable. Those direct costs include the expenditures associated with the harvesting and transporting of timber and closing costs incurred in home and lot sale transactions.

Concentration of credit risk:

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist principally of accounts and contracts receivable. Receivables from foreign sales represent zero, 12% and 6% of the Partnership's accounts receivable balance as of December 31, 2004, 2003, and 2002, respectively. The Partnership limits its credit exposure by considering the creditworthiness of potential customers. Losses from accounts receivable have historically been less than \$10,000 per year.

Contracts receivable:

The Partnership sells land parcels under contracts requiring a minimum cash down payment of 20% and having financing terms of up to eight years at interest rates between 7% and 10% per annum. The Partnership reduces credit risk on contracts through down payment requirements and utilizing the underlying land as collateral. Over the past several years, there have been a steadily declining number of outstanding contracts receivable, as fewer new land sales have been transacted on this basis. Existing contracts are being paid off as they come due or as the result of refinancing obtained from other parties on more favorable terms.

At December 31, 2004, minimum principal payments on contracts receivable for the next five years and thereafter are due as follows:

2005	\$ 606,000
2006	47,000
2007	55,000
2008	56,000
2009	—
Thereafter	—

Income taxes:

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Operating loss and tax credit carryforwards are also factored into the calculation of deferred tax assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Property, equipment, and roads:

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 5 to 39 years. The Partnership capitalizes the cost of building permanent roads on the tree farms and expenses temporary roads and road maintenance. Capitalized roads are depleted as timber is harvested. The road depletion rate is calculated by dividing the cost of capitalized roads at the beginning of the year by merchantable timber inventory. The resulting rate is applied to timber harvested during the year to determine road depletion expense.

When facts and circumstances indicate the carrying value of properties may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the property to the projected future undiscounted cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Partnership would recognize an impairment loss, determined on the basis of fair market value, and charge this amount against current operations.

Buildings and equipment consist of the following as of December 31, 2004 and 2003:

Description	12/31/2004	12/31/2003
Buildings	\$ 5,833,000	\$ 5,330,000
Equipment	2,792,000	2,724,000
Furniture and fixtures	575,000	590,000
Total	9,200,000	8,644,000
Accumulated depreciation	(6,034,000)	(5,537,000)
Net buildings and equipment	\$ 3,166,000	\$ 3,107,000

Timber:

The depletion rate is calculated by dividing estimated merchantable timber inventory into the cost basis of merchantable inventory as of the beginning of the year. To calculate the depletion rate the Partnership uses a combined pool when the characteristics of the acquired timber are not significantly different from the Partnership's existing timberlands. The Partnership acquired approximately 1,400 acres of timberland in the last quarter of 2004 that was accounted for in separate depletion pools. These acquisitions were almost entirely merchantable timber, which made the inventory characteristics of these acquisitions sufficiently different from our existing timber pool to indicate separate depletion pools were warranted under our accounting policy. The cost of replanting acres harvested is initially capitalized as a part of pre-merchantable timber. Then, after 40 years such costs are reclassified from pre-merchantable to merchantable timber and are then incorporated into the cost basis for purposes of calculating the depletion rate. A depletion rate is calculated for each depletion pool and that rate is applied to timber volume harvested from that depletion pool.

Land held for development:

Land held for development represents the Partnership's cost basis in land that has been identified as having greater value as development than timber property. Our Real Estate department works with these properties to establish entitlements with city and county officials that allow for further development. These entitlement costs are evaluated for capitalization based upon the expected value derived from the efforts. For example, costs incurred to change Urban Growth Area boundaries are expensed as incurred due to the difficulty of successfully changing these boundaries but the cost of applying for a preliminary plat is generally capitalized as these efforts have a high likelihood of success and thus increase the value of the property. Those properties that are either under contract or where the Partnership is planning to sell within the next 12 months are classified as a current asset under Land Held for Sale.

Deferred profit:

Deferred profit represents the unearned portion of revenue collected. The balance at December 31, 2004 includes \$803,000 collected on an interim services agreement that will be credited against revenue earned on a long-term management agreement in 2005. The remainder of the balance in 2004 and the \$103,000 balance at December 31, 2003 represents the unearned portion of amounts received on annual cell tower leases.

Revenue recognition:

Revenue on timber sales is recorded when title and risk of loss passes to the buyer. Revenue on real estate sales is recorded on the date the sale closes, upon receipt of adequate down payment, and receipt of the buyer's obligation to make continuing payments towards purchase of the property. The Partnership does not currently sell real estate with less than a 20% down payment and therefore has not deferred profit on real estate sales. Management fees and consulting service revenue is recognized as the related services are provided. Accounts receivable includes earned but unbilled services of \$29,000 and \$13,000 at December 31, 2004 and 2003, respectively.

Timberland sales:

The Partnership considers the sale of tracts of timberland to be part of its normal operations and therefore recognizes revenue from the sale and cost of sales for the Partnership's basis in the property sold. Cash generated from these sales are included in cash flow from operations on the Partnership's statements of cash flows.

Stock based compensation:

The Partnership accounts for unit-based compensation in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, compensation expense for unit options is measured as the excess, if any, of the fair value of the Partnership's units at the date of grant over the amount an employee must pay to acquire the unit. Unit options granted have an exercise price not less than the fair value of the Partnership's unit price on the date of the grant. Had compensation expense for unit option grants been recognized based on the fair value at the grant date consistent with the Black-Scholes method described in Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, the Partnership's net income for the years ended December 31 would have been adjusted to the pro forma amounts indicated below:

(In thousands except per unit data)	Year Ended December 31,		
	2004	2003	2002
Net income as reported	\$ 10,176	\$ 3,528	\$ 3,344
Add back employee units based compensation expense recognized	—	—	—
Subtract proforma compensation expense under SFAS No. 123	(222)	(285)	(309)
Proforma net income under SFAS No. 123	\$ 9,954	\$ 3,243	\$ 3,035
Earnings per unit as reported:			
Basic	\$ 2.25	\$ 0.78	\$ 0.74
Diluted	\$ 2.22	\$ 0.78	\$ 0.74
Proforma:			
Basic	\$ 2.20	\$ 0.72	\$ 0.67
Diluted	\$ 2.17	\$ 0.72	\$ 0.67

Unit options used in the calculation of proforma SFAS 123 compensation expense for 2004, 2003, and 2002 were 215,605, 60,835, and 68,525, respectively. The fair value of options was calculated using the Black-Scholes option-pricing model, with the following assumptions:

	Year Ended December 31,		
	2004	2003	2002
Expected life	5 years	5 years	5 years
Risk free interest rate	3.97% – 4.75%	3.70% – 4.46%	3.95% – 5.43%
Dividend yield	1.2% – 1.8%	1.6% – 2.1%	-% – 2.2%
Volatility	20.7% – 25.4%	19.4% – 20.4%	18.3% – 24.7%
Weighted average value	\$ 4.46	\$ 2.14	\$ 4.05

The Partnership calculates volatility using unit close prices on the 15th day (or nearest business day to the 15th) of each month over the prior 30 months.

Foreign currency translation:

The Canadian dollar had been determined to be the functional currency for our operations in the Canadian subsidiary. Assets and liabilities are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Revenue and expense is translated at average monthly exchange rates prevailing during the year. There were no significant foreign exchange gains or losses in the years presented. In December 2002, the Partnership's offices in Canada were closed. The Partnership no longer has international subsidiaries as of January 2003.

Comprehensive income:

Comprehensive income consists of net income and foreign currency translation adjustments. The Consolidated Statements of Partners' Capital and Comprehensive Income contain the disclosure and calculation of comprehensive income.

Income per partnership unit:

Basic income per partnership unit is computed using the weighted average number of units outstanding during each year. Diluted income per unit is calculated using the weighted average units outstanding during the year, plus the dilutive impact of unit options outstanding. Unit options are excluded from the computation if their effect is anti-dilutive.

	2004	Year Ended December 31, 2003	2002
Weighted average units outstanding (in thousands):			
Basic	4,522	4,518	4,518
Dilutive effect of unit options	72	4	2
Diluted	4,594	4,522	4,520

Unit options outstanding that were not included in the calculation of earnings per partnership unit as they were anti-dilutive were 148,086, 316,251, and 317,052 in 2004, 2003, and 2002, respectively.

Statements of cash flows:

The Partnership considers all highly liquid debt instruments with maturity of three months or less when purchased to be cash equivalents.

Supplemental disclosure of non-cash investing activities:

During 2003, the Partnership incurred local improvement district debt of \$168,000, which also represents capitalized improvements to the properties. Similarly, during 2002, the Partnership incurred Local Improvement District debt of \$682,000, which also represents capitalized improvements to the properties.

Reclassifications:

Certain reclassifications have been made to the prior years' financial statements to conform to the current year's presentation.

Accounting Standards Not Yet Implemented

In December 2004, the FASB released its revised standard, SFAS No. 123R (SFAS 123R”), *Share-Based Payment*. SFAS 123R requires that a public entity measure the cost of equity based service awards based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award or the vesting period. A public entity will initially measure the cost of liability based service awards based on its current fair value and the fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. Adoption of SFAS 123R is required for fiscal periods beginning after June 15, 2005. The Company is evaluating SFAS 123R and believes it will likely result in recognition of additional non-cash stock-based compensation expense and accordingly would decrease net income in amounts, which likely will be considered material. There will be no effect on cash, working capital or total stockholders’ equity.

The Partnership is currently working to locate investors for a partnership, ORM Timber Fund I, LP (the Fund) with a target amount of \$50 million in equity capital. Upon funding this \$50 million target, the Fund will seek to invest the raised capital in timberland investments. The Partnership will invest 10% of the equity capital in the Fund so that, for example, if the target of \$50 million is reached Pope Resources will have contributed \$5 million of that equity total. The Fund is presently expected to be consolidated into the Partnership’s financial statements since an indirect subsidiary of the Partnership (Olympic Resource Management LLC) will act as manager and general partner of the Fund. However, Emerging Issues Task Force Issue No. 04-5, “Investors’ Accounting for an Investment in a Limited Partnership when the Investors is the Sole General Partner and the Limited Partners have Certain Rights” when finally concluded and issued, could require that the Partnership not consolidate, but rather account for the Fund using the equity method of accounting. Use of either the consolidation or equity method of accounting are expected to result in comparable net income and Partners’ capital in the consolidated financial statements of the Partnership.

2. LONG-TERM DEBT

Long-term debt at December 31 consists of (in thousands):

	<u>2004</u>	<u>2003</u>
Mortgage note payable to an insurance company, with interest at 9.65%, collateralized by timberlands, with monthly interest payments and annual principal payments maturing April 2011	\$ 11,179	\$ 11,692
Mortgage note payable to an insurance company, with interest at 7.63%, collateralized by timberlands, with monthly interest payments and annual principal payments maturing April 2011	23,800	25,174
Local improvement district assessments, with interest ranging from 5.03% to 6.5%, due through 2013	787	879
	<u>35,766</u>	<u>37,745</u>
Less current portion	(1,602)	(1,631)
Total long-term debt	<u>\$ 34,164</u>	<u>\$ 36,114</u>

The Partnership has a \$10 million revolving term loan facility. The balance outstanding on the facility as of December 31, 2004 was \$758,000. Interest on the facility is charged at the bank’s prime rate, which was 5.25% as of December 31, 2004. The facility expires on October 31, 2005. As of December 31, 2003, the Partnership did not have a revolving term loan facility.

The Partnership's debt agreements contain covenants which require the Partnership to maintain a required debt service coverage ratio and a debt to market capitalization ratio. As of December 31, 2004, the Partnership was in compliance with its debt covenants.

At December 31, 2004, principal payments on long-term debt for the next five years and thereafter are due as follows (in thousands):

2005	\$	1,602
2006		1,625
2007		1,375
2008		1,375
2009		1,375
Thereafter		28,414

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's financial instruments include cash and cash equivalents, accounts receivable, contracts receivable, accounts payable, accrued liabilities, and a \$10 million revolving term loan facility for which the carrying amount of each approximates fair value based on current market interest rates or their short-term nature. The fair value of fixed rate debt having a carrying value of \$35.8 million and \$37.7 million has been estimated based on current interest rates for similar financial instruments to be approximately \$39.7 million and \$42.3 million as of December 31, 2004 and 2003, respectively.

4. INCOME TAXES

The Partnership is not subject to income taxes. Instead, partners are taxed on their share of the Partnership's taxable income, whether or not cash distributions are paid. However, the Partnership is subject to income taxes through operations in several of its taxable subsidiaries. The following tables provide information on the impact of income taxes in those taxable subsidiaries. Consolidated Partnership earnings are reconciled to earnings before income taxes in taxable subsidiaries for the years ended December 31 as follows:

(000's)	Year Ended December 31,		
	2004	2003	2002
Consolidated Partnership income before income taxes (less minority interest)	\$ 10,176	\$ 3,770	\$ 2,546
Less: Income earned in entities that pass-through pre-tax earnings to the partners	10,335	3,348	2,920
Income subject to income taxes:			
Domestic	(159)	422	128
Foreign	—	—	(502)
Total income (loss) subject to taxes	(\$ 159)	\$ 422	(\$ 374)

The Partnership's Canadian offices were closed in December 2002 and never generated taxable income. The provision for income taxes relating to taxable subsidiaries of the Partnership consists of the following income tax benefit (expense) for the years ended December 31:

(000's)	Year Ended December 31,		
	2004	2003	2002
Current	\$ —	\$ —	\$ (187)
Deferred	—	(242)	975
Total	\$ —	(\$242)	\$ 788

Reconciliation between the federal statutory tax rate and the Partnership's effective tax rate is as follows for the years ended December 31:

	2004	2003	2002
Statutory tax on income	34%	34%	34%
Income (loss) earned in entities that pass-through pre-tax earnings to the partners	(34%)	(28%)	(37%)
Liquidation of Canadian subsidiary	—	—	(34%)
Non-deductible operating losses of subsidiaries	—	—	10%
Other	—	—	(2%)
Effective income tax rate	—%	6%	(29%)

The net deferred income tax assets include the following components as of December 31:

(000's)	2004	2003
Current (included in prepaid expenses and other)	\$ 16	\$ 30
Non current (included in other assets)	990	981
Total	\$ 1,006	\$ 1,011

The deferred tax assets are comprised of the following:

(000's)	2004	2003
Net operating loss carryforward	\$ 671	\$ 840
Employee-related accruals	16	36
Depreciation	44	16
Other	275	119
	\$ 1,006	\$ 1,011

In 2002, the Partnership's taxable subsidiaries have operating losses generated in the U.S. from liquidation of the Canadian subsidiary of \$2.7 million. This net operating loss expires, if unused, in December 31, 2022. No valuation allowance is considered necessary as the Partnership expects to generate taxable income in its corporate subsidiaries to utilize the deferred tax assets recorded at December 31, 2004 and 2003. The Partnership recorded a deferred tax asset and benefit of \$907,000 in 2002 due to the aforementioned liquidation of its Canadian Subsidiary.

5. UNIT OPTION PLAN

The Partnership's 1997 Unit Option Plan authorized the granting of nonqualified unit options to employees, officers, and directors of the Partnership. A total of 1,500,000 units have been reserved for issuance under the plan of which there are 1,107,183 units authorized but unissued as of December 31, 2004. Unit options are granted at prices not less than the fair value of the limited partnership units on the date of the grant. The options generally become exercisable annually over a four-year period and have a maximum term of ten years. Unit options vested were 233,441, 199,965, and 118,085, at December 31, 2004, 2003, and 2002, respectively. Vested unit options had weighted average exercise prices of \$15.65, \$18.71, and \$20.65 at December 31, 2004, 2003, and 2002, respectively. Unit options outstanding were as follows:

	Number of units (in thousands)	Weighted average price per unit
Balance, December 31, 2002	323.8	\$ 17.28
Granted	40.4	10.07
Exercised	—	—
Expired	(9.5)	(14.94)
Balance, December 31, 2003	354.7	\$ 16.52
Granted	29.5	17.9
Exercised	(20.5)	(15.12)
Expired	—	—
Balance, December 31, 2004	363.7	\$ 16.71

The following table summarizes information about unit options outstanding at December 31, 2004:

Price range	Options outstanding	Weighted average exercise price options outstanding	Options exercisable	Weighted average exercise price options exercisable	Weighted average remaining contractual life (yrs)
\$ 9 – \$ 14	184,304	\$ 12.21	84,804	\$ 12.17	8.7
\$ 15 – \$ 19	87,778	\$ 19.04	65,778	\$ 19.58	6.1
\$ 20 – \$ 24	66,109	\$ 22.45	57,359	\$ 22.52	5.5
\$ 25 – \$ 30	25,500	\$ 27.25	25,500	\$ 27.25	3.7
Total	363,691	\$ 16.71	233,441	\$ 15.65	6.2

6. EMPLOYEE BENEFITS

As of December 31, 2004, all employees of the Partnership and its subsidiaries are eligible to receive benefits under a defined contribution plan. During 2004, 2003 and 2002 the Partnership matched 50% of the employees' contributions up to 8% of compensation. The Partnership's contributions to the plan amounted to \$90,000, \$82,000, and \$57,000, for each of the years ended December 31, 2004, 2003, and 2002, respectively.

7. COMMITMENTS AND CONTINGENCIES

Restructuring: The Partnership decided in the fourth quarter of 2002 to close both of its timberland consulting offices in Canada. Additionally, the Partnership closed two timberland management offices in Oregon and one such office in British Columbia following notification by Hancock Timber Resource Group (HTRG) that they would not be renewing their management contract with the Partnership's subsidiary, Olympic Resource Management LLC, in 2003. As a result of these office closures and reduction in employees the Partnership recorded a \$673,000 restructuring charge in the fourth quarter of 2002. Costs included in the restructuring charge were severance, lease costs, and losses on computer and software equipment used to service the HTRG contract.

Environmental remediation: The Partnership has an accrual for estimated environmental remediation costs of \$474,000, \$292,000, and \$629,000, as of December 31, 2004, 2003 and 2002, respectively. Of the year-end 2004 amount, \$468,000 is expected to be spent in 2005. The accrual represents estimated payments to be made to remedy and monitor certain areas in and around the townsite and millsite of Port Gamble. Port Gamble is a historic town that was owned and operated by Pope & Talbot, Inc. (P&T), a related party, until 1985 when the townsite, millsite and other assets were spun off to the Partnership. P&T continued to operate the millsite until 1996 and leased the millsite and townsite at Port Gamble through January 2002, at which point P&T signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties.

Based on information provided by consultants and P&T, the Partnership estimates that the cost range for cleaning up the Port Gamble townsite, millsite and surrounding area to applicable State standards is between \$474,000 and \$556,000. The environmental remediation liability at December 31, 2004 is based upon an estimate of the Partnership's portion of the clean-up and monitoring costs that remain to be completed under this agreement.

Capital improvements: The Partnership is committed to build infrastructure including water, sewer, and roads at the Gig Harbor and Bremerton properties subject to the purchaser acquiring the land. The current estimated cost of those improvements at Gig Harbor is \$13 to \$15 million. Infrastructure costs at the Bremerton property are expected to be in the range of \$2 to \$3 million. The timing of these expenditures is dependent upon the timing of completion of the land sale.

Investment in Timber Fund: The Partnership has committed to invest 10% of equity capital in ORM Timber Fund I, LP once a timberland acquisition is closed by the fund. Targeted equity capital for this fund is \$50 million and at that level the Partnership's commitment would be \$5.0 million. The Partnership will make this investment once the fund is fully subscribed and timberland acquisitions have been identified.

Performance bonds: In the ordinary course of business, and as part of the entitlement and development process, the Partnership is required to provide performance bonds to ensure completion of certain public facilities. The Partnership had performance bonds of \$68,000 and \$93,000 outstanding at December 31, 2004 and 2003, respectively.

Operating leases: The Partnership has non-cancelable operating leases for automobiles, office space, and computer equipment. The lease terms are from 12 to 48 months. Rent expense under the operating leases totaled \$95,000, \$57,000, and \$219,000 for the years ended December 31, 2004, 2003, and 2002 respectively.

Future minimum rental payments required under non-cancelable operating leases by year are as follows (in thousands):

Year	Amount
2005	\$ 64
2006	37
2007	14
2008	3
2009	1

Supplemental Employee Retirement Plan: The Partnership has a supplemental employee retirement plan for a retired key employee. The plan provides for a retirement income of 70% of his base salary at retirement after taking into account both 401(k) and Social Security benefits with a fixed payment set at \$25,013 annually. The Partnership accrued \$109,000 in 2002 and an additional \$80,000 in 2004 for this benefit based on an approximation of the cost of purchasing a life annuity paying the aforementioned benefit amount. The balance of the projected liability for the two years ended December 31, 2004 and 2003 were \$230,000 and \$150,000, respectively.

Contingencies: The Partnership may from time to time be a defendant in various lawsuits arising in the ordinary course of business. Management believes Partnership losses related to such lawsuits, if any, will not have a material adverse effect to the Partnership's consolidated financial condition or results of operations or cash flows.

8. RELATED PARTY TRANSACTIONS AND MINORITY INTEREST

Pope MGP, Inc. is the managing general partner of the Partnership and receives an annual management fee of \$150,000.

The minority interest represents Pope MGP, Inc.'s interest in the IPMB. The 1997 amendment to the Limited Partnership Agreement authorizing management to pursue the IPMB specifies that annual net income from the IPMB will be split using a sliding scale allocation method, commencing with 80% to ORM, Inc., a subsidiary of Pope Resources, and 20% to Pope MGP, Inc. The sliding scale allocation method will allocate income evenly between ORM, Inc. and Pope MGP, Inc. once net income from the IPMB reaches \$7.0 million in a fiscal year. The aforementioned amendment authorizing pursuit of the IPMB limits cumulative net expenditures to \$5.0 million. As of December 31, 2004, cumulative revenue from IPMB exceeds cumulative IPMB expenditures.

In October 2003, the Partnership sold an art collection to a director and shareholder of Pope MGP, Inc. The proceeds from the sale were \$315,000 in cash and this amount is included in Real Estate segment revenue. The sale price was based upon an independent appraisal of the collection. Prior to the sale, P&T leased the art collection from the Partnership through October 2003. Revenue received from the art lease was \$15,000 annually for the two-year period ended December 31, 2002. Lease payments received in 2003 were \$12,239.

9. SEGMENT AND MAJOR CUSTOMER INFORMATION

The Partnership's operations are classified into three segments: Fee Timber, Timberland Management & Consulting, and Real Estate. The Fee Timber segment consists of the harvest and sale of timber from the Partnership's 115,000 acres of fee timberland in Washington State.

The Timberland Management & Consulting segment was not serving a significant timberland management client during 2004 but began providing services under a 522,000-acre timberland management client on January 1, 2005. In 2003 Olympic Resource Management LLC successfully completed a timberland management and disposition project for a significant client representing 76% of segment revenue. Hancock Timber Resource Group represented 13% of consolidated Partnership revenue in 2002.

The Real Estate segment's operations consist of management of early stage development properties, and the rental of residential and commercial properties in Port Gamble and Kingston, Washington. Real Estate is working with nearly 3,000 acres of early stage development properties as of December 31, 2004. All of the Partnership's real estate activities are in Washington State.

For the year ended December 31, 2004, the Partnership had two major customers that represented 15% and 12% of consolidated revenue, respectively. For the year ended December 31, 2003, there was one major customer representing 30% of consolidated revenue. No other customer represents 10% or greater of consolidated revenue during 2004, 2003, or 2002.

Identifiable assets are those used exclusively in the operations of each industry segment or those allocated when used jointly. The Partnership does not allocate cash, accounts receivable, certain prepaid expenses, or the cost basis of the Partnership's administrative office for purposes of evaluating segment performance. Intersegment transactions are valued at prices that approximate the price that would be charged to a major third-party customer. Details of the Partnership's operations by business segment for the years ended December 31 were as follows (in thousands):

	2004	2003	2002
Revenues:			
Fee Timber	\$ 33,629	\$ 22,988	\$ 23,428
Elimination of intersegment amounts	(58)	(72)	(130)
Fee Timber (External)	\$ 33,571	\$ 22,916	\$ 23,298
Timberland Management & Consulting	\$ 2,018	\$ 2,860	\$ 8,611
Elimination of intersegment amounts	(417)	(474)	(1,316)
Timberland Management & Consulting (External)	\$ 1,601	\$ 2,386	\$ 7,295
Real Estate	\$ 4,512	\$ 1,833	\$ 1,657
Elimination of intersegment amounts	(36)	(99)	(58)
Real Estate (External)	\$ 4,476	\$ 1,734	\$ 1,599
Total revenues	\$ 40,159	\$ 27,681	\$ 33,696
Elimination of intersegment amounts	(511)	(645)	(1,504)
Total revenues (External)	\$ 39,648	\$ 27,036	\$ 32,192
Operating income/(loss):			
Fee Timber	\$ 14,784	\$ 9,171	\$ 9,880
Elimination of intersegment amounts	342	498	319
Fee Timber (External)	\$ 15,126	\$ 9,669	\$ 10,199
Timberland Management & Consulting	\$ (284)	\$ 686	\$ 1,228
Elimination of intersegment amounts	(314)	(414)	(309)
Timberland Management & Consulting (External)	\$ (598)	\$ 272	\$ 919

	2004	2003	2002
Real Estate	\$ 1,614	(\$ 386)	(\$ 1,647)
Elimination of intersegment amounts	(28)	(90)	(20)
Real Estate (External)	\$ 1,586	(\$ 476)	(\$ 1,667)
Unallocated General and Administrative	(\$ 2,986)	(\$ 2,848)	(\$ 3,874)
Elimination of intersegment amounts	—	6	10
Unallocated General and Admin (External)	(\$ 2,986)	(\$ 2,842)	(\$ 3,864)
Operating income	\$ 13,128	\$ 6,623	\$ 5,587
Elimination of intersegment amounts	—	—	—
Operating income (External)	\$ 13,128	\$ 6,623	\$ 5,587
Depreciation, amortization, and depletion:			
Fee Timber	\$ 5,193	\$ 3,007	\$ 3,164
Timberland Management & Consulting	88	69	190
Real Estate	133	85	57
Unallocated General and Administrative	338	385	453
Total	\$ 5,752	\$ 3,546	\$ 3,864
Identifiable assets:			
Fee Timber	\$ 82,159	\$ 63,118	\$ 68,361
Timberland Management & Consulting	169	187	205
Real Estate	6,084	5,894	5,264
Unallocated General and Administrative	6,456	17,109	12,958
Total	\$ 94,868	\$ 86,308	\$ 86,788
Capital and land expenditures:			
Fee Timber	\$ 22,358	\$ 809	\$ 1,315
Timberland Management & Consulting	73	50	179
Real Estate	1,506	1,117	491
Unallocated General and Administrative	63	41	173
Total	\$ 24,500	\$ 2,017	\$ 2,158

Revenues by product line for the years ended December 31, 2004, 2003, and 2002 are as follows (in thousands):

	2004	2003	2002
Sales of forest products:			
Domestic	\$ 27,727	\$ 20,489	\$ 19,695
Export, indirect	5,844	2,427	3,603
Sales of homes, lots, and undeveloped acreage	3,630	613	871
Fees for service:			
Domestic	2,447	3,507	6,634
Foreign	—	—	1,389
Total Revenues	\$ 39,648	\$ 27,036	\$ 32,192

10. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(in thousands except per unit amounts)	Revenues	Income from Operations	Net Income	Earnings per Partnership unit basic	Earnings per Partnership unit diluted
2004					
First quarter	\$ 11,732	\$ 4,748	\$ 3,998	\$.88	\$.87
Second quarter (1)	11,888	4,773	3,997	.88	.87
Third quarter (2)	8,051	2,059	1,361	.31	.30
Fourth quarter	7,977	1,548	820	.18	.18
2003					
First quarter	\$ 7,312	\$ 1,999	\$ 1,291	\$.29	\$.29
Second quarter	7,480	1,999	1,296	.29	.29
Third quarter	6,565	1,628	941	.20	.20
Fourth quarter	5,679	997	—	—	—

(1) Includes \$295,000 (or \$0.06 per diluted unit) increase in the environmental remediation liability in Port Gamble.

(2) Includes \$171,000 (or \$0.04 per diluted unit) increase in the environmental remediation liability in Port Gamble.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

Item 9A. CONTROLS AND PROCEDURES.

The Partnership's management maintains an adequate system of internal controls to promote the timely identification and reporting of material, relevant information. Those controls include requiring executive management and all managers in accounting roles to sign a Code of Ethics (See Exhibit 99.4 to this report). Additionally the Partnership's senior management team meets regularly to discuss significant transactions and events affecting the Partnership's operations. The Partnership's President & CEO and V.P. & CFO lead these meetings and consider whether topics discussed represent information that should be disclosed under generally accepted accounting principles and the rules of the SEC. The Board of Directors of the Partnership's general partner includes an Audit Committee that is comprised solely of independent directors who meet the financial literacy requirements imposed by the Securities Exchange Act and the Nasdaq Stock Market. Two members of our Audit Committee are "financial experts" within the meaning of applicable Nasdaq rules. The Audit Committee reviews the earnings release and all reports on Form 10-Q and 10-K prior to their filing. The Audit Committee is responsible for hiring the Partnership's external auditors and meets with those auditors at least four times each year.

The Partnership's President & CEO and V.P. & CFO are responsible for establishing and maintaining disclosure controls and procedures. They have designed such controls to ensure that others make known to them all material information within the organization. Management regularly evaluates ways to improve internal controls.

As of the end of the period covered by the annual report on Form 10-K our executive officers completed an evaluation of the disclosure controls and procedures and have determined them to be functioning properly and effectively. They did not discover any significant deficiencies or material weaknesses within the controls and procedures that required modification. There were no significant changes in the Partnership's internal controls over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.

9B. OTHER INFORMATION.

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

General Partner

The Partnership has no directors. Instead, the Board of Directors of its managing general partner, Pope MGP, Inc. (the "General Partner"), serves in that capacity. The General Partner's address is the same as the address of the principal offices of the Partnership. Pope MGP, Inc. receives \$150,000 per year for acting as managing general partner of the Partnership.

The following table identifies the officers and directors of the General Partner as of February 11, 2005. Officers of the General Partner hold identical offices with the Partnership.

<u>Name</u>	<u>Age</u>	<u>Position and Background</u>
David L. Nunes ⁽²⁾	43	President and Chief Executive Officer, and Director, from January 2002 to present. President and Chief Operating Officer from September 2000 to January 2002. Senior Vice President Acquisitions & Portfolio Development from November 1998 to August 2000. Vice President Portfolio Development from December 1997 to October 1998. Director of Portfolio Development from April 1997 to December 1997 of Pope MGP, Inc. and the Partnership. Strategic Planning Director of Weyerhaeuser Company from June 1988 to April 1997.
Thomas M. Ringo	51	Vice President and CFO from December 2000 to present. Senior Vice President Finance and Client Relations from June 1996 to December 2000. Vice President Finance from November 1991 to June 1996. Treasurer from March 1989 through October 1991 of Pope MGP, Inc. and the Partnership. Tax Manager of Westin Hotel Company, 1985 to March 1989. Tax Consultant for Price Waterhouse, 1981 to 1985.
Douglas E. Norberg ^{(1), (3), (4), (5)}	64	Director; Vice Chairman, Wright Runstad & Company, since 2000; President, Wright Runstad & Company, 1975 until 2000. Wright Runstad & Company is in the business of real estate investing, development, and management.
Peter T. Pope ^{(1), (4)}	70	Director; Director, Pope & Talbot, Inc. 1971 to present; Chairman of the Board and CEO of Pope & Talbot, Inc., 1971 to 1999. Mr. Pope retired as CEO of Pope & Talbot, Inc. in 1999. Mr. Pope is also a director and President of Pope EGP, Inc.

J. Thurston Roach ^{(1), (3), (4), (5)}	63	Director; private investor; Director, Deltic Timber Corporation, December 2000 to present; Director The Liberty Corporation May 1994 to Present; President and CEO HaloSource Corporation, October 2000 to November 2001; Director HaloSource Corporation, October 2000 to February 2002; Senior Vice President and CFO, Owens Corning, January 1999 to April 2000; Senior Vice President and President of Owens Corning's North American Building Materials Systems Business, February 1998 to December 1998; Vice Chairman, Simpson Investment Company, July 1997 to February 1998; President, Simpson Timber Company, January 1996 to June 1997; Senior Vice President and Chief Financial Officer and Secretary, Simpson Investment Company, August 1984 to December 1995.
Marco F. Vitulli ^{(2), (3), (4)}	70	Director; President, Vitulli Ventures Ltd., 1980 to present. Vitulli Ventures Ltd. is in the business of real estate investments.

-
- 1) Class A Director
 - 2) Class B Director
 - 3) Member of the Audit Committee
 - 4) Member of the Human Resources Committee
 - 5) Designated financial expert for the Board of Directors Audit Committee

Board of Directors of the Managing General Partner

Board Composition. The Managing General Partner's Articles of Incorporation provide that directors are divided into two classes, each class serving a period of two years. The Managing General Partner's shareholders elect approximately one-half of the members of the Board of Directors annually. The terms of the Class A directors expire on December 31, 2006, and the terms of the Class B directors expire on December 31, 2005. The directors' election to the Managing General Partner's Board of Directors is subject to a voting agreement between the Managing General Partner's two shareholders, Mr. Peter T. Pope and Ms. Emily T. Andrews. Mr. Pope serves as his own appointee, and J. Thurston Roach serves as Ms. Andrews' appointee to the Board of Directors. The Managing General Partner's Board of Directors met 6 times in 2004 with 5 of those meetings in person and 1 telephonic, to discuss Partnership matters. The composition of our Board of Directors is established by the Limited Partnership Agreement and accordingly, as permitted by NASD Rules 4360(c) and 4350(c)(4), board nominations are not made or approved by a separate nominating committee or by a majority of the independent directors.

Audit Committee. The Audit Committee of the General Managing Partner's Board of Directors is comprised of three outside directors who comply with the Securities Exchange Act and the Nasdaq's qualification requirements for Audit Committee members. The audit committee met to discuss the Partnership 4 times during 2004. The Audit Committee currently has two financial experts: Douglas E. Norberg and J. Thurston Roach. See report of the Audit Committee on financial statements below.

Human Resources Committee. The Human Resources Committee is responsible for (1) establishing compensation programs for executive officers and senior management of the Partnership designed to attract, motivate, and retain key executives responsible for the success of the Partnership as a whole; (2) administering and maintaining such programs in a manner that will benefit the long-term interests of the Partnership and its unit holders; and (3) determining the salary, bonus, unit option and other compensation of the Partnership's executive officers and senior management. The Human Resources Committee met once during 2004. See report of the Human Resources Committee on executive compensation below.

Beneficial Ownership and Section 16(a) Reporting Compliance

The Partnership is a reporting company pursuant to Section 12 of the Securities Exchange Act of 1934 (“Exchange Act”). Under Section 16(a) of the Exchange Act, and the rules promulgated hereunder, directors, officers, greater than 10% shareholders, and certain other key personnel (the “Reporting Persons”) are required to report their ownership and any change in ownership of Partnership units to the Securities and Exchange Commission. The Partnership believes that the Reporting Persons have complied with all Section 16(a) filing requirements applicable to them. In making the foregoing statement, the Partnership has relied solely upon oral or written representations of the Reporting Persons, and copies of the reports that the Reporting Persons have filed with the SEC.

Item 11. EXECUTIVE COMPENSATION

The following table sets forth certain information concerning the cash compensation paid to each of the five most highly compensated executives of the Partnership (the “Named Executives”) in fiscal year 2004, 2003 and 2002. The titles used in this Item 11 correspond to these persons’ titles during 2004.

Summary Compensation Table

Name and Principal Position	Annual Compensation				Long-term Compensation
	Year	Salary (\$)	Bonus (\$) ⁽¹⁾	Other Annual Compensation (\$)	All Other Compensation (\$) ⁽²⁾ LTIP Payments (\$) ⁽³⁾
David L. Nunes President and CEO	2004	255,337	205,500		6,127 2,608
	2003	234,792	169,127		6,000 5,961
	2002	223,075	155,250		5,500 15,111
Thomas M Ringo V.P. and CFO	2004	166,875	104,250		7,750 1,630
	2003	153,125	103,289		7,000 4,471
	2002	148,174	78,720		5,500 15,111
Jonathan P. Rose Director Real Estate	2004	123,257	66,440		4,740 —
	2003	120,327	48,152		6,000 —
	2002	115,774	44,203		5,205 —
John T. Shea Director Business Development	2004	125,484	57,279		6,500 1,956
	2003	122,500	101,522		6,000 4,471
	2002	97,521	37,500		4,315 15,111

(1) Amounts represent bonuses or commissions earned in the year shown but paid after year-end.

(2) Amounts represent contributions to the Partnerships 401(k) plan.

(3) The LTIP payments are made from Pope MGP’s share of the IPMB. Amounts shown above are earned in the year specified and paid in the subsequent year. See “Long-Term Incentive Plans – Awards in Last Fiscal Year”.

Compensation Pursuant To Unit Options

During 2004 there were no unit options issued to named executive officers of the Partnership.

Aggregated Option Exercises

The following table provides information on option exercises in fiscal 2004 by the named executive officers and the value of exercisable and unexercisable unit options at December 31, 2004.

Name	Units Acquired on Exercise	Value Realized	Number of securities underlying unexercised options at year-end (#)		Value of unexercised in-the-money options at year-end (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
David L. Nunes President and CEO	—	—	37,250	29,500	257,000	345,000
Thomas M. Ringo V.P. and CFO	1,500	7,620	26,000	15,375	123,000	174,000
Jonathan P. Rose Director Real Estate	—	—	9,175	17,825	68,000	168,000
John T. Shea Director Business Development	2,400	13,200	3,900	7,700	34,000	91,000

Long-Term Incentive Plans-Awards in Last Fiscal Year

During 2005 the following awards were made from the Long-Term Incentive Plan based upon 2004 operating results for the IPMB:

Name and Principal Position	Award (\$) ⁽¹⁾	Performance Period
David L. Nunes President and CEO	2,608	1/1/2004 to 12/31/2004
Thomas M. Ringo V.P. and CFO	1,630	1/1/2004 to 12/31/2004
John T. Shea Director Business Development	1,956	1/1/2004 to 12/31/2004

(1) Awards from the LTIP are made based upon performance of the Investor Portfolio Management Business (IPMB) during 2004 and are contingent upon the officer's employment with the Partnership on the last day of the award year. LTIP payments are made from Pope MGP's share of the IPMB.

Compensation of General Partner's Directors

Compensation of the outside directors of Pope MGP, Inc. consists of a monthly retainer of \$1,500 plus a \$1,000 per day fee for each board meeting attended and \$500 for participation in a board meeting via telephone. The Chairman of the Audit Committee receives an additional annual retainer amount of \$3,000 that is paid in a monthly pro rata fashion. Both the Chairman of the Audit and Human Resources Committees receive an additional \$500 per committee meeting fee. Outside directors have the option of receiving their \$1,500 monthly board retainer in unit options. The number of options granted is based upon the fair value of the options on the date of grant. All option grants so made to outside directors in 2004 were made pursuant to the Partnership's 1997 Unit Option Plan for their service as directors of Pope MGP, Inc.

For the year ended December 31, 2004, two outside directors each received 3,726 options with strike prices ranging from \$15.35 to \$23.56. As of December 2004, two outside directors were receiving their retainers in cash.

For the year ended December 31, 2003, two outside directors each received 8,115 and one received 2,125 options with strike prices ranging from \$9.50 to \$14.30. As of December 2003, two outside directors were receiving their retainers in cash. One director received a 6,000-option grant with an exercise price of \$10.00 vesting over five years.

Unit Option Plan

The Partnership's 1997 Unit Option Plan authorizes the granting of nonqualified unit options to employees, officers, and directors of the Partnership. A total of 1,500,000 units have been reserved for issuance under the plan. Unit options are granted at prices not less than the fair value of the limited partnership units on the date of the grant, and currently range from \$9.30 to \$27.88 per unit. The options generally become exercisable annually over a four-year period and have a maximum term of ten years. Unit options issued and outstanding at December 31, 2004 and 2003 were 363,691 and 354,740, respectively, and unit options vested at December 31, 2004 and 2003 were 233,441 and 199,965, respectively. During 2004 20,500 options were exercised and options totaling 29,126 units have been exercised since the Plan was authorized. The units issued under the Unit Option Plan have been registered on a Form S-8 registration statement.

The Partnership accounts for unit-based compensation in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, compensation cost for unit options is measured as the excess, if any, of the fair value of the Partnership's units at the date of grant over the amount an employee must pay to acquire the unit.

Employee Benefit Plans

As of December 31, 2004 all employees of the Partnership and its subsidiaries are eligible to receive benefits under a defined contribution plan. During 2004 and 2003 the Partnership matched 50% of the employees' contribution up to 8% of compensation. Partnership contributions to the plan amounted to \$90,000, \$82,000, and \$57,000, for each of the years ended December 31, 2004, 2003, and 2002, respectively. Employees become fully vested over a six-year period in the Partnership's contribution.

Employment Contracts

Thomas M. Ringo Employment Agreement. Effective January 1, 2003 the Partnership entered into a three-year Employment Agreement with Mr. Ringo under which he has served as the Partnership's Vice President and Chief Financial Officer. Under that agreement, Mr. Ringo received an annual salary of \$166,875, an annual target bonus of 35% of annual salary, and participation in the IPMB Incentive Plan.

John T. Shea Employment Agreement. Effective January 1, 2003 the Partnership entered into a three-year Employment agreement with Mr. Shea under which he has served as the Partnership's Director of Business Development. Under that agreement, Mr. Shea received an annual salary of \$125,484, an annual target bonus of 25% of annual salary, and participation in the IPMB Incentive Plan.

Symington Arrangements. On August 31, 2000, the Partnership entered into a three-year Employment Agreement with Mr. Symington under which he served as the Partnership's Chairman and Chief Executive Officer. Under that Employment Agreement, Mr. Symington received an annual salary of \$200,000, an annual bonus of up to 45% of his base salary based upon attainment of performance criteria, and a \$25,000 signing bonus. He also received 45,000 unit options under the Partnership's 1997 Unit Option Plan, which vest over three years, and are exercisable for four years after termination of employment. Options to purchase 45,000 units are currently vested. The Partnership paid Mr. Symington's annual salary of \$200,000 in equal monthly installments through the end of his employment agreement (August 2003).

Supplemental Retirement Plan. The Partnership has a supplemental retirement plan for George H. Folquet, a retired key employee. The plan provides for a retirement income of 70% of his base salary at retirement after taking into account both 401(k) and Social Security benefits and makes an annual fixed-amount payment of \$25,013. The Partnership accrued \$80,000 and \$109,000 in 2004 and 2002, respectively, for this benefit based on an approximation of the cost of purchasing a life annuity paying the aforementioned benefit amount. The balance of the liability as of December 31, 2004 and 2003 was \$230,000 and \$150,000, respectively.

Report of the Human Resources Committee on Executive Compensation

The Human Resources Committee of the General Partner's Board of Directors (the "HR Committee") has furnished the following report on the Partnership's executive compensation for fiscal year 2004. The HR Committee's report is intended to describe in general terms the process the HR Committee undertakes and the matters it considers in determining the appropriate compensation for the Partnership's executive officers, Mr. Nunes and Mr. Ringo.

Responsibilities and Composition of the Committee

The HR Committee is responsible for (1) establishing compensation programs for executive officers of the Partnership designed to attract, motivate, and retain key executives responsible for the success of the Partnership as a whole; (2) administering and maintaining such programs in a manner that will benefit the long-term interests of the Partnership and its unit holders; and (3) determining the salary, bonus, unit option, and other compensation of the Partnership's executive officers.

The HR Committee is currently composed of Douglas E. Norberg, Peter T. Pope, J. Thurston Roach, and Marco F. Vitulli. Mr. Pope serves as HR Committee Chair. None of the members are officers or employees of the Partnership or the General Partner.

Compensation Philosophy

The Partnership's strategic plan is to focus on growing its fee timber and timberland management businesses. The Partnership's growth strategy consists of the following elements:

- Add to owned timberland asset base;
- Build third-party service business by providing cost-effective timberland management and forestry consulting services;
- Launch a series of timberland investment funds that will indirectly add to the Partnership's owned timberland asset base and will also provide timberland management opportunities;
- Focus real estate activities on where we can add the most value; and
- Support operations with appropriate, efficient levels of overhead.

The achievement of these goals is intended to create long-term value for the Partnership's unitholders.

The HR Committee believes that compensation of the Partnership's Chief Executive Officer, other executive officers and key personnel should be based to a substantial extent on achievement of the goals and strategies that the Partnership has established and enunciated.

When establishing salaries, bonus levels, and unit option awards for executive officers, the HR Committee considers (1) the Partnership's performance during the past year and recent quarters in meeting its financial and other performance goals; (2) the individual's performance during the past year and recent quarters; and (3) the salaries of executive officers in similar positions with companies of comparable size, maturity and pursuing similar objectives, and other companies within the timber industry. With respect to executive officers other than the Chief Executive Officer, the Committee takes into consideration the recommendations of the Chief Executive Officer. The method for determining compensation varies from case to case based on a discretionary and subjective determination of what is appropriate at the time.

Compensation Programs and Practices

The Partnership's compensation program for executives consists of four key elements: (1) base salary; (2) a performance-based annual bonus; (3) periodic grants of unit options; and (4) IPMB award payments (referred to above as long-term incentive plan).

The HR Committee believes that this four-part approach best serves the interests of the Partnership and its unitholders. It enables the Partnership to meet the requirements of the highly competitive environment in which it operates, while ensuring that executive officers are compensated in a way that advances both the short- and long-term interests of unitholders. The variable, annual bonus permits individual performance to be recognized and is based, in significant part, on an evaluation of the contribution made by the executive to the Partnership's overall performance. Unit options relate a significant portion of long-term remuneration directly to unit price appreciation. This type of compensation is intended to align the interests of option holders and of the Partnership's unitholders, and further serve to promote an executive's continued service to the organization. IPMB awards encourage business growth in the Partnership's third-party timberland management and forestry consulting businesses.

Base Salary. Base salaries for the Partnership's executive officers are developed and approved by the HR Committee with periodic consultation provided by Towers Perrin, a nationally recognized compensation-consulting firm. Base salary amounts for executive officers take into account such factors as competitive industry salaries, an executive's scope of responsibilities, and individual performance and contribution to the organization. The HR Committee obtains executive compensation data through Towers Perrin who has developed salary surveys that reflect a peer group of other timber companies, including companies of different sizes. This data is integral to the HR Committee's deliberations and conclusions regarding appropriate levels of executive compensation. To the extent it deems appropriate, the HR Committee also considers general economic conditions within the area and within the industry. It is the HR Committee and not management that consults with and engages Towers Perrin.

Annual Bonus. Executive officers have an annual incentive (bonus) opportunity with awards based on the overall performance of the Partnership and on specific individual performance targets. The performance targets may be based on one or more of the following criteria: successfully pursuing the Partnership's growth strategies, maintaining sound asset quality, improving productivity, and increasing earnings and return on equity.

The size of the bonus pool is based upon an assessment of the Partnership's performance as compared to both budgeted and prior fiscal year performance and the extent to which the Partnership achieved its overall goals. Once the bonus pool is determined, the Chief Executive Officer makes individual bonus recommendations to the HR Committee, within the limits of the pool, for eligible employees based upon an evaluation of their individual performance and contribution to the Partnership's overall performance.

Unit Options. The HR Committee follows a compensation philosophy that includes unit options as a long-term incentive program for management. The Partnership's use of unit-based compensation focuses on the following guiding principles: (1) unit-based compensation has been and will continue to be an important element of employee pay, (2) the grant of unit options will be based on performance measures within the employee's control, (3) owning units is an important ingredient in forming the partnership between employees and the organization, and (4) ownership of significant amounts of the Partnership's units by executives and senior officers of the Partnership will facilitate aligning management's goals with the goals of unitholders. The HR Committee anticipates that it will continue to emphasize unit-based compensation in the future but is considering substituting a restricted unit plan for the Partnership's Unit Option Plan.

IPMB Award. The IPMB awards are paid from Pope MGP's share of earnings from the IPMB. Awards are paid in a lump sum following the year in which the award was earned.

Chief Executive Officer Compensation

Mr. Nunes has been serving as Chief Executive Officer and President since January of 2002. In evaluating the compensation of Mr. Nunes for services rendered in 2004, the HR Committee considered both quantitative and qualitative factors.

In looking at quantitative factors, the HR Committee reviewed the Partnership's 2004 financial results and compared them with the Partnership's 2004 budget and actual financial results for 2003. Specifically, the HR Committee considered the following:

- Progress towards goal of increasing the timber portfolio at reasonable prices
- Progress towards subscribing ORM Timber Fund I, LP
- Successfully signing up a new 522,000 acre timberland management client
- Value added to the Partnership's portfolio of Real Estate assets

In addition to these quantitative accomplishments, the HR Committee also considered certain qualitative accomplishments by Mr. Nunes in 2004. Specifically, the HR Committee considered the following:

- Assessment and implementation of plan for high-yield forestry applications on owned timberlands
- Sustainable Forestry Initiative (SFI) certification
- Retention and motivation of quality employees.

Policy With Respect to \$1 Million Deduction Limit

It is not anticipated that the limitations on deductibility, under Internal Revenue Code Section 162(m), of compensation to any one executive that exceeds \$1,000,000 in a single year will apply to the Partnership or its subsidiaries in the foreseeable future. In the event that such limitations would apply, the Committee will analyze the circumstances presented and act in a manner that, in its judgment, is in the best interests of the Partnership. This may or may not involve actions to preserve deductibility.

Conclusion

The HR Committee believes that for 2004 the compensation terms for Mr. Nunes, as well as for the other executive officers, were clearly related to the realization of the goals and strategies established by the Partnership. Further, based on our consideration of all factors, bonuses were paid in February 2005 based on 2004 performance.

Douglas E. Norberg
Peter T. Pope
J. Thurston Roach
Marco F. Vitulli

Report of the Audit Committee on Financial Statements

The Audit Committee of the General Partner's Board of Directors has furnished the report set forth in the following section entitled "Responsibilities and Composition of the Audit Committee" on the Partnership's year-end financial statements and audit for fiscal year 2004. The Audit Committee's report is intended to identify the members of the Audit Committee and describe in general terms the responsibilities the Audit Committee assumes, the process it undertakes, and the matters it considers in reviewing the Partnership's financial statements and monitoring the work of the Partnership's external auditors.

Responsibilities and Composition of the Audit Committee

The Audit Committee is responsible for (1) hiring the Partnership's external auditors and overseeing their performance of the audit functions assigned to them, (2) approving any non-audit services to be provided by the external auditors, and (3) approving all fees paid to the external auditor. Additionally, the Audit Committee reviews the Partnership's quarterly and year-end financial statements with management and the external auditors. The Board of Directors has adopted an Audit Committee Charter.

The Audit Committee is currently composed of Douglas E. Norberg, J. Thurston Roach, and Marco F. Vitulli. Mr. Vitulli serves as Audit Committee Chair. All members of the Audit Committee are independent as defined under Nasdaq Rule 4200(a)(15), and all are financially literate. Mr. Norberg and Mr. Roach are both designated as "financial experts" as defined under Section 10A(m) of the Securities Exchange Act of 1934 and Nasdaq Rule 4350(d).

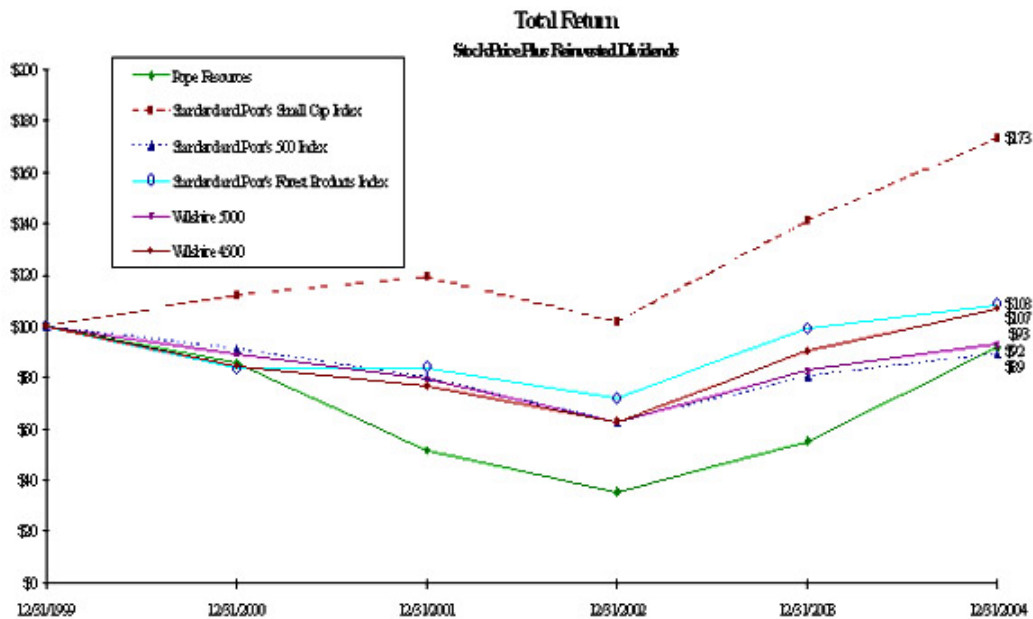
During the year, the Audit Committee reviewed with the Partnership's management and with its independent public accountants the scope and results of the Partnership's internal and external audit activities and the adequacy of the Partnership's internal accounting controls. The Audit Committee also reviewed current and emerging accounting and reporting requirements and practices affecting the Partnership. The Audit Committee discussed certain matters with the Partnership's external auditors and received certain disclosures from the external auditors regarding their independence. All fees paid during the year to the Partnership's external auditor were reviewed and approved by the Audit Committee. The Audit Committee has also made available to employees of the Partnership and its subsidiaries a confidential method of communicating financial or accounting concerns to the Audit Committee and periodically reminds the employees of the availability of this communication system to report those concerns.

Conclusion

Based on this review, the Audit Committee recommends to the Partnership's Board of Directors that the Partnership's audited financial statements be included in the Partnership's report on Form 10-K.

Douglas E. Norberg
J. Thurston Roach
Marco F. Vitulli

Performance Graph



The following graph shows a five-year comparison of cumulative total unitholder returns for the Partnership, the Standard and Poor's Forest Products Index, and the Wilshire 4500 for the five years ended December 31, 2004. The total unitholder return assumes \$100 invested at the beginning of the period in the Partnership's units, the Standard and Poor's Forest Products Index, and the Wilshire 4500. The graph assumes distributions are reinvested.

Total Shareholder Return for the previous 1 year:

	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004
Pope Resources	-14.60%	-39.80%	-30.81%	55.63%	65.29%
Standard and Poor's Small Cap Index	11.79%	6.54%	-14.63%	38.77%	22.64%
Standard and Poor's 500 Index	-9.10%	-11.88%	-22.09%	28.67%	6.18%
Standard and Poor's Forest Products Index	-16.75%	0.82%	-14.44%	37.83%	9.42%
Wilshire 5000	-10.89%	-10.97%	-20.86%	31.64%	12.48%
Wilshire 4500	-15.77%	-9.33%	-17.80%	43.84%	18.10%

Indexed Total Return: Stock Price Plus Reinvested Dividends

	12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004
Pope Resources	\$ 100.00	\$ 85.40	\$ 51.41	\$ 35.57	\$ 55.36	\$ 91.51
Standard and Poor's Small Cap Index	\$ 100.00	\$ 111.79	\$ 119.10	\$ 101.68	\$ 141.10	\$ 173.04
Standard and Poor's 500 Index	\$ 100.00	\$ 90.90	\$ 80.10	\$ 62.41	\$ 80.30	\$ 89.03
Standard and Poor's Forest Products Index	\$ 100.00	\$ 83.25	\$ 83.93	\$ 71.80	\$ 98.97	\$ 108.29
Wilshire 5000	\$ 100.00	\$ 89.11	\$ 79.33	\$ 62.79	\$ 82.65	\$ 92.97
Wilshire 4500	\$ 100.00	\$ 84.23	\$ 76.37	\$ 62.78	\$ 90.30	\$ 106.64

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**Principal Unit Holders**

As of February 22, 2005, the following persons were known or believed by the Partnership to be the beneficial owners of more than 5% of the outstanding Partnership units:

<u>Name and Address of Beneficial Owner</u>	<u>Number of Units⁽¹⁾</u>	<u>Percent of Class</u>
Private Capital Management, Inc. 8889 Pelican Bay Blvd Suite 500 Naples, FL 34108	1,417,195 (2)	30.9
Emily T. Andrews 600 Montgomery Street 35th Floor San Francisco, CA 94111	557,100 (3)	12.2
Peter T. Pope 1500 S.W. 1st Avenue Portland, OR 97201	335,892 (4)	7.3

- (1) Each beneficial owner has sole voting and investment power unless otherwise indicated. Includes unit options exercisable within 60 days.
- (2) Private Capital Management, Inc. is an investment adviser shown registered under the Investment Advisers Act of 1940. Units are held in various accounts managed by Private Capital Management, Inc. which shares dispositive powers as to those units.
- (3) Includes 1,090 units owned by her husband, Adolphus Andrews, Jr. as to which she disclaims beneficial ownership. Also includes a total of 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which she shares voting and investment power.
- (4) Includes (a) 44,600 units held in trust for his children, and (b) 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which he shares investment and voting power (c) currently exercisable options to purchase 30,367 units and (d) 910 units owned by spouse.

Management

As of February 22, 2005, the beneficial ownership of the Partnership units of (1) the general partners of the Partnership, (2) the directors of the Partnership's general partners, (3) the named executives, and (4) the Partnership's general partners, directors and officers as a group, was as follows. **

<u>Name</u>	<u>Position and Offices</u>	<u>Number of Units⁽¹⁾</u>		<u>Percent of Class</u>
David L. Nunes	Chief Executive Officer and President, Pope MGP, Inc. and the Partnership; Director, Pope MGP, Inc.	60,753	(2)	1.3
Thomas M. Ringo	Vice President and CFO, Pope MGP, Inc. and the Partnership	32,855	(2)	*
Peter T. Pope	Director, Pope MGP, Inc. and Pope EGP, Inc.; President, Pope EGP, Inc.	335,892	(3)	7.3
J. Thurston Roach	Director, Pope MGP, Inc.	2,400	(4)	*
Pope EGP, Inc.	Equity General Partner of the Partnership	54,000		1.2
Pope MGP, Inc.	Managing General Partner of the Partnership	6,000		*
Douglas E. Norberg	Director, Pope MGP, Inc.	58,394	(5)	1.3
Marco F. Vitulli	Director, Pope MGP, Inc.	21,989	(6)	*
All general partners, directors and officers of general partners, and officers of the Partnership as a group (6 individuals and 2 entities)		512,283	(7)	11.2

* Less than 1%

** The address of each of these parties is C/O Pope Resources, 19245 Tenth Avenue NE, Poulsbo, WA 98370.

- (1) Each beneficial owner has sole voting and investment power unless otherwise indicated. Includes unit options that are exercisable within 60 days.
- (2) David L. Nunes number of units includes owned units of 21,003 and options to purchase 39,750 units that are exercisable within 60 days and Thomas M. Ringo includes owned units of 4,980 and options to purchase 27,875 units that are exercisable within 60 days.
- (3) Includes (a) 44,600 units held in trust for his children, (b) 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which he shares investment and voting power, (c) currently exercisable options to purchase 30,367 units, and (d) 910 units owned by his spouse.
- (4) Includes currently exercisable options to purchase 2,400 units issued to Mr. Roach.
- (5) Includes currently exercisable options to purchase 47,794 units issued to Mr. Norberg.
- (6) Includes currently exercisable options to purchase 20,039 units issued to Mr. Vitulli.
- (7) For this computation, the 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc. are excluded from units beneficially owned by Mr. Pope. Mr. Pope and Emily T. Andrews, own all of the outstanding stock of Pope MGP, Inc. and Pope EGP, Inc. Includes currently exercisable options to purchase 168,225 units.

Equity Compensation Plan Information

The following table presents certain information with respect to the Partnership's equity compensation plans and awards thereunder on December 31, 2004.

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u>
	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>
Equity compensation plans approved by security holders	—	—	—
Equity compensation plans not approved by security holders	363,691	\$ 16.71	1,107,183
Total	363,691	\$ 16.71	1,107,183

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Partnership Agreement provides that it is a complete defense to any challenge to an agreement or transaction between the Partnership and a general partner, or related person, due to a conflict of interest if, after full disclosure of the material facts as to the agreement or transaction and the interest of the general partner or related person, (1) the transaction is authorized, approved or ratified by a majority of the disinterested directors of the General Partner, or (2) the transaction is authorized by partners of record holding more than 50% of the units held by all partners.

General Partner Fee. Pope MGP, Inc. receives an annual fee of \$150,000, and reimbursement of administrative costs for its services as managing general partner of the Partnership, as stipulated in the Partnership Agreement.

Minority Interest Payments. The minority interest represents Pope MGP, Inc.'s interest in the IPMB. Net income from the IPMB is paid 80% to ORM, Inc. and 20% to Pope MGP, Inc. until net income from the IPMB reaches \$7.0 million in a fiscal year, at which time income will be allocated evenly between ORM, Inc. and Pope MGP, Inc.

P&T Lease Payments. Mr. Peter T. Pope, a director of Pope MGP, Inc., is also a director of P&T. P&T leased an art collection from the Partnership through October 2003. Revenue received from the art lease was \$15,000 annually for the year ended December 31, 2002. Lease payments received in 2003 were \$12,239. The lease ended in October 2003 when the art collection was sold to Mr. Pope.

Art Collection Sale. In October 2003 the art collection that has been historically leased to P&T was sold to Mr. Pope for \$315,000. The price was based upon an independent appraisal.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes fees related to the Partnership's principal accountants, KPMG LLP during 2004 and 2003.

Description of services	2004	%	2003	%
Audit	\$ 152,500	77%	\$ 131,483	71%
Audit related	3,500	2%	1,700	1%
Tax:				
Tax return preparation	24,500	12%	12,000	6%
All other services				
General tax consulting	18,000	9%	39,544	21%
Total	\$ 198,500	100%	\$ 184,727	100%

The Audit Committee approved all payments for services provided in 2004 and 2003 by KPMG LLP.

Prior to hiring KPMG to provide services to the Partnership, anticipated fees and a description of the services are presented to the Audit Committee. The Audit Committee then either agrees to hire KPMG to provide the services or directs management to find a different service provider.

PART IV**Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

Financial Statements	Page
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Financial Statement Schedules

	Environmental Remediation			
	Balances at the Beginning of the Period	Additions to Accrual	Expenditures for Remediation	Balances at the End of the Period
Year Ended December 31, 2002	\$ 1,409,000	\$ 730,000	\$ 1,510,000	\$ 629,000
Year Ended December 31, 2003	629,000	—	337,000	292,000
Year Ended December 31, 2004	292,000	466,000	284,000	474,000

Exhibits.

No.	Document
3.1	Certificate of Limited Partnership. (1)
3.2	Limited Partnership Agreement, dated as of November 7, 1985 . (1)
3.3	Amendment to Limited Partnership Agreement dated December 16, 1986 . (2)
3.4	Amendment to Limited Partnership Agreement dated March 14, 1997 . (4)
3.5	Certificate of Incorporation of Pope MGP, Inc. (1)
3.6	Amendment to Certificate of Incorporation of Pope MGP, Inc. (3)
3.7	Bylaws of Pope MGP, Inc. (1)
3.8	Certificate of Incorporation of Pope EGP, Inc. (1)
3.9	Amendment to Certificate of Incorporation of Pope EGP, Inc. (3)
3.10	Bylaws of Pope EGP, Inc. (1)
4.1	Specimen Depository Receipt of Registrant. (1)
4.2	Limited Partnership Agreement dated as of November 7, 1985 , as amended December 16, 1986 and March 14, 1997 (see Exhibits 3.2, 3.3 and 3.4).
9.1	Shareholders Agreement entered into by and among Pope MGP, Inc., Pope EGP, Inc., Peter T. Pope, Emily T. Andrews, P&T, present and future directors of Pope MGP, Inc. and the Partnership, dated as of November 7, 1985 included as Appendix C to the P&T Notice and Proxy Statement filed with the Securities and Exchange Commission on November 12, 1985, a copy of which was filed as Exhibit 28.1 to the Partnership's registration on Form 10 identified in footnote (1) below. (1)
10.1	Transfer and Indemnity Agreement between the Partnership and P&T dated as of December 5, 1985 . (1)
10.3	Environmental Remediation Agreement (11)
10.4	1997 Unit Option Plan Summary. (5)
10.5	Audit Committee Charter. (12)
10.6	Employment Agreement between the Partnership and Allen E. Symington, dated August 31, 2000 . (9)
10.17	Management Agreement, dated as of March 22, 2000, by and between Pioneer Resources I, LLC and Olympic Resource Management LLC. (6)
10.18	First Amendment to Management Agreement between Pioneer Resources I, LLC and Olympic Resource Management LLC, dated September 7, 2000 . (10)
10.19	Second Amendment Management Agreement between Pioneer Resources I, LLC and Olympic Resource Management LLC, dated June 29, 2001 . (10)
10.20	Deed of Trust, Fixture Filing and Security Agreement with Assignment of Rents between Pioneer Resources I, LLC, Olympic Resource Management LLC, and Oregon Title Insurance Company, dated April 7, 2000 . (6)

No.	Document
10.21	Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company, dated April 29, 1992 . (10)
10.22	Amendment to Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company, dated May 13, 1992 . (10)
10.23	Second Amendment to Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company, dated May 25 1993 . (10)
10.24	Third Amendment to Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company, dated December 19, 1995 . (10)
10.25	Fourth Amendment to Timberland Deed of Trust and Security Agreement with Assignment of Rents between Pope Resources, Jefferson Title Company and John Hancock Mutual Life Insurance Company, dated December 20, 1999 . (10)
10.26	Amended and Restated Timberland Deed of Trust and Security Agreement with Assignment of Rents and Fixture Filing between Pope Resources and John Hancock Life Insurance Company, dated March 29, 2001 . (10)
10.27	Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company, dated April 29, 1992 . (10)
10.28	Amendment to Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company, dated May 25, 1993 . (10)
10.29	Second Amendment to Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company, dated December 19, 1995 . (10)
10.30	Third Amendment to Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company, dated December 20, 1999 . (10)
10.31	Fourth Amendment to Promissory Note from Pope Resources to John Hancock Mutual Life Insurance Company, dated March 29, 2001 . (10)
10.32	Timberland Purchase and Sale Agreement for the Southwest Washington Timberlands by and among Plum Creek Timberlands, L.P. and Plum Creek Marketing, Inc., as Seller and Pope Resources, a Delaware Limited Partnership as Purchaser, dated February 12, 2001. (7)
10.33	Note Purchase Agreement between Pope Resources, John Hancock Life Insurance Company and John Hancock Variable Life Insurance Company, dated March 29, 2001 . (10)
10.34	Class A Fixed Rate Senior Secured Note from Pope Resources to John Hancock Life Insurance Company, dated March 29, 2001 , in the principal amount of \$23,500,000. (10)
10.35	Class A Fixed Rate Senior Secured Note from Pope Resources to John Hancock Life Insurance Company, dated March 29, 2001 in the principal amount of \$4,500,000. (10)
10.36	Class A Fixed Rate Senior Secured Note from Pope Resources to John Hancock Variable Life Insurance Company, dated March 29, 2001 , in the principal amount of \$2,000,000. (10)
10.37	Timberland Deed of Trust and Security Agreement With Assignment of Rents and Fixture Filing between Pope Resources, Jefferson Title Company and John Hancock Life Insurance Company, dated March 29, 2001 . (10)
10.61	Promissory Note from Port Ludlow Associates LLC to Pope Resources, dated August 2001. (8)

No.	Document
10.62	Deed of Trust from Port Ludlow Associates LLC to Pope Resources, dated August 2001. (8)
10.63	Subordination and Release Agreement between Port Ludlow Associates LLC and Pope Resources, dated August 2001. (8)
10.67	Third Amendment to Management Agreement between Pioneer Resources I, LLC and Olympic Resource Management LLC. (11)
10.68	Amendment to Subordination and Release Agreement between Port Ludlow Associates LLC and Pope Resources, dated April 25, 2002. (11)
10.69	Purchase and sale agreement with Plum Creek dated December 23, 2003 (12)
10.70	Purchase and sale agreement with Costco Wholesale Corp dated December 22, 2003 (12)
10.71	Employment agreement with Mr. Thomas M. Ringo dated December 10, 2003 (12)
10.72	Employment agreement with Mr. John T. Shea dated December 10, 2003 (12)
10.73	Option agreement with Kitsap County dated August 14, 2003 (13)
10.74	Line of Credit Agreement with Bank of America dated November 1, 2004 (13)
10.75	Purchase and sales agreement for Quilcene Timberlands dated September 28, 2004 (13)
10.76	Long term management agreement with Cascade Timberlands LLC dated December 31, 2004 (13)
10.77	Purchase and sale agreement with Plum Creek Timberlands LP dated December 2003 (13)
10.78	Amendment 1 to option agreement with Kitsap County dated May 24, 2004 (13)
22	Subsidiaries of the Partnership (11)
23	Consent of Registered Independent Public Accounting Firm (13)
31.1	Certificate of Chief Executive Officer (13)
31.2	Certificate of Chief Financial Officer (13)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (13)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (13)
99.1	Press release of the Registrant dated December 23, 2003 disclosing the signing of a definitive purchase and sale agreement with Costco Wholesale Corporation to sell nearly 20 acres of the Partnership's 320-acre project in North Gig Harbor Washington. (12)
99.2	Press release of the Registrant dated December 23, 2003 signing of a definitive purchase and sale agreement with Plum Creek Timber Company to acquire approximately 3,200 acres of timberland in southwest Washington for \$8.5 million.
99.3	Press Release of the Registrant dated January 30, 2004, incorporated by reference to the Current Report on Form 8-K filed by the Registrant on January 30, 2004.
99.4	Pope Resources Code of Ethics (11)

- (1) Incorporated by reference from the Partnership's registration on Form 10 filed under File No. 1-9035 and declared effective on December 5, 1985.
- (2) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1987.
- (3) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1988.
- (4) Incorporated by reference from the Partnership's Proxy Statement filed on February 11, 1997.
- (5) Incorporated by reference to the Company's Form S-8 Registration Statement filed with the Commission on February 11, 1997.
- (6) Incorporated by reference from the Partnership's quarterly report on Form 10-Q for the quarter ended March 31, 2000. Subject to a request for confidential treatment filed with the SEC on May 12, 2000.
- (7) Incorporated by reference to the Company's Current Report filed on Form 8-K filed with the Commission on March 19, 2001.
- (8) Incorporated by reference to the Company's Current Report filed on Form 8-K filed with the Commission on August 20, 2001.
- (9) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2000.
- (10) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2001.
- (11) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2002.
- (12) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2003.
- (13) Filed with this annual report on Form 10-K for the fiscal year ended December 31, 2004.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Partnership has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POPE RESOURCES, A Delaware
Limited Partnership

By POPE MGP, INC.
Managing General Partner

Date: March 4, 2005

BY /s/ David L. Nunes

DAVID L. NUNES,
President and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Partnership and in the capacities and on the date indicated.

Date: March 4, 2005

By /s/ David L. Nunes

DAVID L. NUNES,
President and Chief Executive Officer (principal
executive officer), Partnership and Pope MGP, Inc.;
Director, Pope MGP, Inc.

Date: March 4, 2005

By /s/ Thomas M. Ringo

THOMAS M. RINGO
Vice President & CFO (principal financial and
accounting officer), Partnership and Pope MGP, Inc.

Date: March 1, 2005

By /s/ J. Thurston Roach

J. Thurston Roach
Director, Pope MGP, Inc.

Date: March 4, 2005

By /s/ Peter T. Pope

PETER T. POPE
Director, Pope MGP, Inc.

Date: March 4, 2005

By /s/ Marco F. Vitulli

MARCO F. VITULLI
Director, Pope MGP, Inc.

Date: March 1, 2005

By /s/ Douglas E. Norberg

DOUGLAS E. NORBERG
Director, Pope MGP, Inc.

OPTION AGREEMENT

This OPTION AGREEMENT (this "Agreement") is made and entered into this ___ day of _____, 2003, by and between Pope Resources, a Delaware limited partnership, and OPG Properties LLC, a Washington limited liability company (collectively, "Optionor"), and Kitsap County, a Public Entity ("Optionee"), with respect to the following real property (the "Real Property"):

PARCEL A:

The Southeast quarter of the southeast quarter of Section 33, Township 27 north, Range 2 east; the south half of the southwest quarter of Section 34, Township 27 north, Range 2 east; the north half of the northeast quarter, the southeast quarter of the northeast quarter and the east half of the southeast quarter of Section 4, Township 26 north, Range 2 east; the northwest quarter of Section 3, Township 26 north, Range 2 east, W.M., Kitsap County, Washington, subject to all agreements, conditions, covenants, declarations, easements, restrictions, and other matters of record.

PARCEL B:

The south half of the southeast quarter and that part of the north half of the southeast quarter of Section 34, Township 27 north, Range 2 east west of the extension of Norman Road; the northeast quarter of Section 3, Township 26 north, Range 2 east, W.M., Kitsap County, Washington, subject to all agreements, conditions, covenants, declarations, easements, restrictions, and other matters of record.

RECITALS

A. The addresses, telephone numbers, and facsimile numbers of the parties to this Agreement are as follows.

OPTIONOR:

Pope Resources
19245 Tenth Avenue N.E.
Poulsbo, WA 98370-7456
Attn: David L. Nunes
Tel: 360.697.6626
Fax: 360-697.1156

OPTIONEE:

Kitsap County
1200 NW Fairgrounds Rd.
Bremerton, WA 98311
Attn: Rick Fackler
Tel: 360.337.5358
Fax:

OPG Properties LLC

19245 Tenth Avenue
N.E. Poulsbo, WA 98370-7456
Attn: Jon Rose
Tel: 360.697.6626
Fax: 360.697.1156

B. Copies of all correspondence, notices and agreements should also be sent to:

Marco de Sa e Silva
Davis Wright Tremaine LLP
2600 Century Square
1501 Fourth Avenue
Seattle, WA 98101
Tel: 206.628.7766
Fax: 206.628.7699

Kitsap County
614 Division St., MS-35A
Port Orchard, WA 98366
Att: Jon Walker
Tel: 360.337.7245
Fax: 360.337.7083



C. Optionor is the record owner of the Real Property.

D. The Real Property, together with any and all improvements, fixtures, timber, water and minerals located thereon and any and all rights appurtenant thereto including but not limited to timber rights, water rights, access rights (including an easement for access off Miller Bay Road) and mineral rights, shall be referred to in this Agreement as the "Subject Property."

E. Optionee wishes to obtain an exclusive option to purchase the Subject Property and Optionor agrees to grant said exclusive option to purchase the Subject Property, in accordance with the terms and conditions specified below.

F. It is the mutual intention of the parties that, if Optionee shall complete the purchase of the Subject Property, to the extent feasible, the Subject Property be preserved for its unique wildlife

habitat value, and that appropriate portions of Subject Property be developed and used for outdoor recreational purposes. However this intention shall not be construed as a covenant or condition to this Agreement.

AGREEMENT

Now therefore, for and in consideration of the sum of One dollar (\$1.00) and other valuable consideration, receipt and sufficiency of which is hereby acknowledged, Optionor grants to Optionee an exclusive Option to purchase the Subject Property (the "Option") in accordance with the following terms and conditions:

1. **Option Term.** Optionee shall have the right, but not the obligation, to exercise the Option and to purchase the Subject Property, in accordance with this Agreement, at any time during the Option Term. The Option Term shall commence on date of the last signature on this Agreement and expire one hundred fifty (150) days thereafter for Phase I (as defined in Section 2 below) and five (5) years thereafter for Phase 2 and Phase 3 (as defined in Section 2 below). Notwithstanding the foregoing, Optionee may extend the Option Term for Phase I only for one (1) additional term of sixty (60) days, upon written notice to Optionor. Optionee shall have no right to close the purchase of the Subject Property after the expiration of the Option Term, regardless whether Optionee has delivered the Option Notice prior to the expiration of the Option Term. If Optionee either does not complete the purchase of Phase I under this Agreement on or before February 29, 2004, or does not complete the purchase of Phase 2 and Phase 3 under this Agreement on or before July 1, 2008, then this Agreement shall terminate automatically and neither party shall have any further rights or obligations under this Agreement except those obligations intended to survive the expiration or termination of this Agreement. In no event shall the term of this Agreement extend beyond July 1, 2008, which shall be the Termination Date of this Agreement.
 2. **Option Phasing.** The Option shall be exercised and the Subject Property acquired by Optionee in no more than three (3) phases, comprising Phase 1, Phase 2, and Phase 3. Phase 1 shall comprise at Optionee's option either all of Parcel A or such portion of the Subject Property as is proposed by Optionee in its Option Notice (as defined in Section 4 below) and approved by Optionor in its sole discretion. Phase 1 shall comprise a minimum of 300 acres. Phase 2 shall comprise either all of Parcel B or such portion of the Subject Property as is proposed by Optionee in its Option Notice and approved by Optionor in its sole discretion. Phase 3 shall comprise the remainder of the Subject Property. Optionee must close the purchase of Phase 1 prior to or concurrent with closing the purchase of Phase 2 and must close the purchase of Phase 2 prior to closing the purchase of Phase 3.
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3. Trail Easement. If Optionee completes the purchase of the entirety of Parcel A under this Agreement, then contemporaneous with the Optionor's conveyance of Parcel A to Optionee, Optionor shall convey to Optionee subject to matters of record a perpetual nonexclusive public pedestrian trail easement (the "Trail Easement") within such portion of Parcel B as may be mutually acceptable to Optionor and Optionee (the "Trail Easement Area"), on such terms and conditions as may be mutually acceptable to Optionor and Optionee, and subject to a perpetual right of relocation by Optionor and future owners of Parcel B.
 4. Option Notice. In the event Optionee wishes to exercise the Option, then Optionee shall do so by notifying Optionor in writing (the "Option Notice") within the Option Term specified in Section 1 above. It is contemplated that there will be as many as three (3) Option Notices under this Agreement. The Option Notice shall include (a) a legal description of that portion of the Subject Property that is subject to the exercise of the Option, (b) a survey of said portion if it does not comprise the entirety of either Parcel A or Parcel B, (c) a complete and accurate copy of the Phase 1 Appraisal, Phase 2 Appraisal, or Phase 3 Appraisal (as defined in Section 5 below), as applicable, and (d) a statement of the purchase price payable at closing for that portion of the Subject Property that is subject to the exercise of the Option. Prior to delivery of any Option Notice, Optionee shall cause a licensed land surveyor to mark the corners and boundaries of the portion of the Subject Property described in the Option Notice. Notwithstanding the foregoing, if the description of the Subject Property contained in the Option Notice comprises less than the entirety of either Parcel A in Phase 1 or Parcel B in Phase 2, then the Option Notice shall be null and void unless, within fifteen (15) days after Optionor's receipt of the Option Notice, Optionor delivers to Optionee written notice that Optionor approves the description of the Subject Property contained in the Option Notice.
 5. Appraisals. Prior to exercising the Option, Optionee shall obtain a professional appraisal of that portion of the Subject Property for which Optionee intends to exercise the Option. All appraisals shall be prepared by an independent MAI certified appraiser selected by Optionee and approved by Optionor, which approval shall not be unreasonably withheld. The parties shall mutually agree upon the factual assumptions, property use assumptions, approach, and method used by the appraiser. The parties acknowledge that the Subject Property is subject to a vested application for master plan approval of the establishment of 765 residential dwelling units, that a portion of the Subject Property is subject to vested applications for preliminary plat and planned unit development approvals, and that the fair market value of the Subject Property is enhanced by these applications. All appraisals shall include the additional value conferred upon the Subject Property by these applications unless Optionor either relinquishes or withdraws the applications in writing or expressly waives such enhanced value in writing. All appraisals shall be paid for by Optionee. All appraisals shall be complete appraisals in accordance with the Appraisal Institute in their Uniform Standards of Professional Appraisal Practice and shall establish a fair market value of either Phase 1, Phase 2, or Phase 3, including any and all improvements, fixtures, timber, water and minerals located thereon and any and all rights appurtenant thereto including but not limited to timber rights, water rights, access rights, and mineral rights appurtenant thereto. All appraisals shall be subject to review in a review appraisal, which shall be a desk review of the prior appraisal in accordance with Uniform Standards of Professional Appraisal Practice. The initial appraisal of Phase 1, together with the review appraisal thereof, is referred to herein as the "Phase 1 Appraisal." The appraisal of Phase 2, together with the review appraisal thereof, is referred to herein as the "Phase 2 Appraisal." The appraisal of Phase 3, together with the review appraisal thereof, is referred to herein as the "Phase 3 Appraisal." Optionee shall cause the Phase 1 Appraisal, Phase 2 Appraisal, and Phase 3 Appraisal to be completed no more than ninety (90) days prior to the date of closing on the phase to which they relate.
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6. Purchase Price. The purchase price of Phase I shall be the fair market value of the Phase 1 portion of the Subject Property as set forth in the Phase 1 Appraisal, provided, however, that the Phase 1 Appraisal shall determine the fair market value of Phase 1 as of a date no more than ninety (90) days prior to the date of closing on Phase 1. The purchase price of Phase 2 shall be the fair market value of the Phase 2 portion of the Subject Property as set forth in the Phase 2 Appraisal, provided, however, that the Phase 2 Appraisal shall determine the fair market value of Phase 2 as of a date no more than ninety (90) days prior to the date of closing on Phase 2. The purchase price of Phase 3 shall be the fair market value of the Phase 3 portion of the Subject Property as set forth in the Phase 3 Appraisal, provided, however, that the Phase 3 Appraisal shall determine the fair market value of Phase 3 as of a date no more than ninety (90) days prior to the date of closing on Phase 3. The purchase price is subject to Optionor's approval as set forth in Section 19 below.
 7. Escrow and Closing. The parties hereby appoint Pacific Northwest Title Company of Washington, Inc., Silverdale, Washington, to serve as the escrow holder (the "Escrow Holder"), for the purpose of closing the purchase and sale of the Subject Property. Escrow shall close within thirty (30) days of the date of delivery of the Option Notice. Upon receipt of any appraisal, Optionee shall notify Escrow Holder of the purchase price as set forth in such appraisal.
 8. Title. Upon closing, Optionor shall convey to Optionee or to Optionee's permitted assignee or designee that portion of the Subject Property that is subject to Optionee's exercise of the Option by a Statutory Warranty Deed (the "Deed") subject to (a) all agreements, conditions, covenants, declarations, easements, restrictions, and other matters of record, except any mortgage, deed of trust, or other financial encumbrance arising by or through Optionor, (b) matters that a complete inspection of the Subject Property would disclose, (c) matters that an accurate ALTA survey of the Subject Property would disclose, and (d) the reservation of a perpetual nonexclusive easement sixty (60) feet in width for motor vehicle access, emergency vehicle access, and utility services within that portion of the Subject Property, as may be mutually acceptable to Optionor and Optionee, on such terms and conditions as may be mutually acceptable to Optionor and Optionee, and subject to a perpetual right of relocation by the owner or future owners of the Subject Property through which the easement passes, for the benefit of all lands owned by Optionor, its affiliates, parents, and subsidiaries, their successors and assigns (collectively, the "Permitted Exceptions"). Title Insurance. Upon closing any conveyance, Optionor shall provide Optionee with an ALTA standard coverage owner's policy of title insurance issued by Pacific Northwest Title Company of Washington, Inc., Silverdale, Washington ("Title Company"), consistent with the preliminary title commitment dated May 16, 2003, Order No. 32073487 (the "Title Commitment"), in form and substance acceptable to Optionee, in the amount of the Purchase Price, insuring that title to the portion of the Subject Property conveyed by Optionor was vested in Optionee upon close of escrow subject only to the exceptions noted and agreed to in writing by Optionee.
 10. Optionor's Pre-closing Covenants. Optionor shall not, without the prior written consent of Optionee, which consent shall not be unreasonably withheld, (a) make, extend or permit any leases, contracts, mortgages or other liens or encumbrances affecting the Subject Property which will not be removed, released or terminated at closing, or (b) take or permit any action that could reduce the value of the Subject Property.
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11. **Optionee's Acknowledgments and Covenants.** Optionee acknowledges and agrees that Optionor has no legal or other obligation to enter into this Agreement and that Optionor has not requested any material consideration from Optionee in exchange for the making of this Agreement. Optionee covenants that this Agreement and Optionor's actions and decisions taken under this Agreement, shall not in any way affect or influence to the detriment of Optionor the conditions, timeliness, or substance of the land use, subdivision, Growth Management Act planning, and other actions and decisions to be taken by Optionee with respect to the Subject Property or other real property owned by Optionor in Kitsap County, Washington. Optionee shall process land use, subdivision, Growth Management Act planning, and other actions and decisions requested by Optionor regarding the Subject Property and other real property owned by Optionor in Kitsap County, Washington in the usual and customary manner in accordance with all state and county requirements.
12. **Optionor's Representations.** Optionor makes the following representations and warranties:
 - a. Optionor has full power and authority to enter into this Agreement and to transfer and convey all right, title and interest in and to the Subject Property in accordance with this Agreement, subject to satisfaction of the board approval condition precedent described in Section 19 below.
 - b. Within the knowledge of Jon Rose, President of OPG Properties LLC, and David L. Nunes, President and CEO of Pope Resources, there is no suit, action, arbitration, legal, administrative or other proceeding or inquiry pending or threatened against the Subject Property, or any portion thereof, or pending or threatened against Optionor which could affect Optionor's title to the Subject Property, or any portion thereof, affect the value of the Subject Property, or any portion thereof, or subject an owner of the Subject Property, or any portion thereof, to liability.
 - c. Within the knowledge of Jon Rose, President of OPG Properties LLC, and David L. Nunes, President and CEO of Pope Resources, there are no intended public improvements or private rights which will result in the creation of any liens upon the Subject Property or any portion thereof which affects the Subject Property or any portion thereof which will not be removed at closing.
 - d. Within the knowledge of Jon Rose, President of OPG Properties LLC, and David L. Nunes, President and CEO of Pope Resources, there are no toxic or hazardous materials on or under the Subject Property.

Each of the above representations and warranties is material and is relied upon by Optionee. Each of the above representations and warranties shall be deemed to have been made as of the close of escrow and shall survive the close of escrow for a period of two (2) years, after which they shall expire automatically and have no further force or effect, with the exception of an action by Optionee for contribution relating to a claim brought against Optionee by a third party under the Model Toxics Control Act, Chapter 70.105D RCW and Chapter 173 WAC. No claim for breach of any representation or warranty of Optionor under this Agreement shall be actionable or payable if the breach in question results from or is based upon a condition, fact, or other matter known to Optionee prior to closing.

If, before the close of escrow, Optionor discovers any information or facts that would materially change the foregoing representations and warranties, Optionor shall as soon as reasonably possible give notice to Optionee of those facts and information. If any of the foregoing representations and warranties ceases to be true before the close of escrow, Optionor shall have the option to remedy the problem before the close of escrow. If the problem is not remedied before close of escrow, Optionee may elect to terminate this Agreement, in which case neither party shall have any further rights or obligations under this Agreement except those obligations intended to survive the expiration or termination of this Agreement. Optionee's election in this regard shall not constitute a waiver of Optionee's rights in regard to any loss or liability suffered as a result of a representation or warranty not being true.

13. Engineering Studies and Inspection. Optionor acknowledges that Optionee may conduct soil, survey, environmental, hydrology and engineering studies to determine whether the Subject Property is suitable for Optionee's intended purpose. Accordingly, at any time during the Option Term specified in Section 1 above, Optionee may inspect, or cause to have inspected, the Subject Property. Optionor hereby grants permission to Optionee and/or his representatives and assigns to go upon the Subject Property and collect information pursuant to the foregoing. Optionee shall deliver notice to Optionor at least forty-eight (48) hours in advance of any entry onto the Subject Property, which notice shall specify the dates of entry, the persons entering, and the scope of their investigations, tests, or other work. Optionee shall indemnify, defend and hold Optionor harmless from any claims, demands and causes of action for personal injury, property damage, mechanics liens, violation of laws or breach of contract or lease that arise out of or are related to Optionee's activities on the Real Property prior to Closing, including without limitation Optionor's costs, expenses and attorney's fees, except to the extent such claims, demands or causes of action arise out of Optionor's negligence, misconduct, breach of lease or contract or violation of law. Without expanding Optionee's obligations set forth above, it is understood that Optionee shall not be liable for or in connection with the discovery and reporting as required by law of any hazardous or environmental condition on the Property. Notwithstanding anything to the contrary herein, this indemnity shall survive termination of this Agreement. Optionee's entry shall be at reasonable times and in compliance with all laws, leases, and other agreements of Optionor. Unless Optionor has given its prior written consent, (i) no improvements shall be constructed upon the Real Property, no materials, vehicles or equipment shall be placed or stored on the Real Property except for the purposes of testing, and no construction activity shall be conducted upon the Real Property, and (ii) no grading, filling, excavation, or other disturbance of the soils shall be permitted. Optionee's activities shall not violate any law, regulation, ordinance or permit. Optionee shall provide to Optionor and shall cause its consultants to provide to Optionor within thirty (30) days after receipt by Optionee complete copies of any work product Optionee and its consultants have produced on behalf of Optionee, including without limitation appraisals, environmental reports and studies, and surveys.
 14. Closing Costs. The parties shall equally share the Closing Agent's escrow fee and the cost of recording of the Deed. Optionor shall pay the real estate excise tax.
 15. Compensating Taxes. Optionor has disclosed to Optionee that portions of the Subject Property are currently classified or designated as current use or forest land for tax purposes under RCW Ch. 84.33 or RCW Ch. 84.34. Conversion of the Subject Property to another use will require the payment of compensating tax. At Closing, Optionee either shall continue the current classification or designation or pay the compensating tax, and in any event Optionee shall bear sole responsibility for, and shall indemnify and hold Optionor harmless against, all such compensating tax. The provisions of this section shall survive Closing. In any suit, action, or appeal therefrom to enforce this section, the prevailing party shall be entitled to its costs incurred therein, including reasonable attorneys' fees and costs of litigation.
 16. Right to Assign or Direct Deed. At Optionee's sole discretion, Optionee may assign this Agreement or direct Optionor to convey the Deed, in accordance with the terms and conditions of this Agreement, to any of Optionee's assignees or designees, provided that such assignee or designee is either a government agency or a nonprofit corporation whose primary business is the preservation of real property.
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17. Right to Record Memorandum of Option. Optionee upon its sole signature may record a memorandum of this Agreement with the Kitsap County Auditor. Optionor may record a memorandum or notice of termination of this Agreement signed by Optionee at any time after the expiration or termination of this Agreement.
 18. Remedies Upon Default. In the event that Optionor shall default in the performance of its obligations under this Agreement, Optionee's sole remedy shall be an action for money damages to the extent of appraisal and other actual third party consultant costs and fees paid by Optionee in connection with the review of the Subject Property incurred between the making of this Agreement and the default by Optionor, in an aggregate amount not to exceed Fifty Thousand Dollars (\$50,000.00).
 19. Optionor's Conditions Precedent. Optionor's obligations under this Agreement are expressly conditioned upon and subject to Optionor's satisfaction or written waiver of the following conditions precedent: (a) The approval of this Agreement and the transactions described herein by the Board of Directors of Pope Resources within thirty (30) days after the date of mutual acceptance of this Agreement, in its sole discretion, (b) The approval of the Phase 1 Appraisal, Phase 2 Appraisal, and Phase 3 Appraisal by Optionor within thirty (30) days after Optionor's receipt of either such appraisal, in Optionor's sole discretion, and (c) The partial release of any mortgage, deed of trust, or other financial encumbrance relating to the Subject Property on or before the date of closing. If Optionor fails to deliver written notice to Optionee of the satisfaction or waiver of the foregoing conditions precedent within the applicable time periods, then such conditions precedent shall be deemed not satisfied or waived, in which event this Agreement shall terminate and neither party shall have any further rights or obligations hereunder except those indemnity and other obligations intended to survive the expiration or termination of this Agreement.
 20. Property Condition. Optionee agrees that it has the opportunity to inspect and become thoroughly familiar with the Property and to investigate each and every aspect of the Property, either independently or through agents of Optionee's choosing, including, without limitation: (i) all matters relating to the title to the Property, (ii) all governmental and other legal requirements, such as taxes, assessments, zoning, and permit requirements; (ii) the physical condition of the Property, including, without limitation, the infrastructure available or unavailable to the Property (as the case may be), access to the Property, all other physical and functional aspects of the Property, including any grading issues, whether or not the import or export of soil will be necessary for Optionee's use of the Property, and the presence or absence of hazardous or toxic materials, substances or wastes of any kind, and (iii) all other matters of any significance affecting the Property whether physical in nature or intangible in nature. Optionee acknowledges that Optionor has provided Optionee the opportunity to review documents in Optionor's possession relating to the condition of the Property except property valuation information. Optionee is acquiring the Property in its "AS IS" condition. Except as expressly set forth otherwise in Section 12 above, SELLER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, REGARDING THE PROPERTY INCLUDING, WITHOUT LIMITATION: ANY REPRESENTATION OR WARRANTY WITH RESPECT TO (A) THE QUALITY, NATURE, ADEQUACY AND PHYSICAL CONDITION OF THE PROPERTY, INCLUDING, BUT NOT LIMITED TO, ACCESS, SOILS, TIMBER, GEOLOGY AND ANY GROUND WATER; (B) THE EXISTENCE, QUALITY, NATURE, ADEQUACY, AND PHYSICAL CONDITION OF UTILITIES SERVING THE PROPERTY; (C) THE PROPERTY'S USE, HABITABILITY, MERCHANTABILITY, OR FITNESS, SUITABILITY, VALUE OR ADEQUACY OF THE PROPERTY FOR ANY PARTICULAR PURPOSE; (D) THE ZONING OR OTHER LEGAL STATUS OF THE PROPERTY OR ANY OTHER PUBLIC OR PRIVATE
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RESTRICTIONS ON USE OF THE PROPERTY; (E) THE COMPLIANCE OF THE PROPERTY OR THE PROPERTY'S OPERATION WITH ANY APPLICABLE CODES, LAWS, REGULATIONS, STATUTES, ORDINANCES, OF ANY GOVERNMENTAL OR QUASI-GOVERNMENTAL ENTITY, OR ANY COVENANTS, CONDITIONS OR RESTRICTIONS APPLICABLE TO THE PROPERTY; (F) THE PRESENCE OR ABSENCE OF HAZARDOUS MATERIALS ON, UNDER OR ABOUT THE PROPERTY OR THE ADJOINING OR NEIGHBORING PROPERTY; (G) THE QUALITY OF ANY LABOR AND MATERIALS USED IN ANY IMPROVEMENTS ON OR BENEFITING THE PROPERTY; (H) THE CONDITION OF TITLE TO THE PROPERTY; (I) THE ECONOMICS OF THE PRESENT OR FUTURE OPERATION OF THE PROPERTY; OR (J) THE ACREAGE OF THE PROPERTY. OPTIONEE ASSUMES THE RESPONSIBILITY AND RISKS OF ALL DEFECTS TO AND CONDITIONS IN THE PROPERTY, INCLUDING DEFECTS AND CONDITIONS, IF ANY, THAT CANNOT BE OBSERVED BY INSPECTION. OPTIONOR SHALL NOT BE LIABLE FOR ANY LATENT OR PATENT DEFECTS IN THE PROPERTY. OPTIONOR SHALL HAVE NO OBLIGATION TO REPAIR OR MAKE ANY IMPROVEMENTS TO THE CONDITION OF THE PROPERTY PRIOR TO CLOSING. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, OPTIONOR EXPRESSLY DISCLAIMS ANY IMPLIED WARRANTY OF MERCHANTABILITY, AS WELL AS ANY WARRANTY WHATSOEVER WITH RESPECT TO THE MARKETABILITY, HARVESTABILITY, AGE, SPECIES MIX, SITE CLASSIFICATION, OR BOUNDARIES OF ANY TIMBER ON THE PROPERTY, OR THE QUANTITIES, GRADES, OR QUALITY OF ANY TIMBER ON THE PROPERTY, OR THE AVAILABILITY OR ADEQUACY OF ACCESS TO THE PROPERTY. Optionee further acknowledges that any information whatsoever, whether written or oral, or in the form of maps, surveys, data, inventory information, plats, soil reports, engineering studies, environmental studies, inspection reports, plans, specifications, or any other form, pertaining to the Property and the timber thereon, including the condition, suitability, integrity, marketability, compliance with law, or other attributes or aspects of the Property and the timber thereon, is furnished to Optionee solely as a courtesy, and neither Optionor nor its representatives have verified, nor do they warrant, the accuracy of any statements or other information therein contained nor the qualifications of the persons preparing such information. Neither Optionor nor its representatives warrant the accuracy of any information contained therein in any way. Optionee is responsible for determining access to the Property. This includes contacting any responsible government agencies regarding access permits, restrictions or existing hazards. Mineral rights will not be included in the sale unless currently owned by Optionor. Optionee is also responsible for evaluating any and all environmental, land use, regulatory and other constraints relating to the use of the Property.

21. No Brokers. Optionee and Optionor each agree that if any claims should be made for commissions allegedly arising from the execution of this Agreement or any sale of the Subject Property to Optionee by any broker by reason of any acts of Optionee or Optionor, as the case may be, then the party whose acts provide the basis for the claims shall indemnify, defend, and hold the other harmless from and against any and all loss, liabilities, and expenses in connection therewith. The provisions of this indemnity shall survive the closing and any expiration or termination of this Agreement.
 22. Section 1031 Exchange. Optionee and Optionor will cooperate with each other in connection with the form and structure of this transaction in order to limit tax liabilities and preserve tax benefits to themselves to the extent permitted by law. Either Optionee or Optionor may elect to close this transaction as a part of a tax-deferred exchange under Section 1031 of the Internal Revenue Code, in which case the other party will sign all documents necessary for such exchange and otherwise cooperate therewith, provided only that the other party will not be required to incur any additional expense or liability or acquire title to any property except as provided otherwise in this Agreement. Each party electing to close as part of a tax-deferred exchange will indemnify, defend, and hold the other party harmless from any loss, liability, claim, or expense that is asserted against or incurred by the other party in connection with their cooperation with any tax deferred exchange.
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23. Notices. All notices pertaining to this Agreement shall be in writing and delivered to the parties hereto by facsimile transmission, personally by hand, courier service or Express Mail, or by certified United States mail, postage prepaid, return receipt requested, at the addresses and facsimile numbers set forth above.
 24. Time of the Essence. Time is of the essence of this Agreement.
 25. Binding on Successors. This Agreement shall be binding not only upon the parties, but also upon their respective heirs, personal representatives, assigns, and other successors in interest.
 26. Additional Documents. Optionor and Optionee agree to execute such additional documents, including escrow instructions, as may be reasonable and necessary to carry out the provisions of this Agreement.
 27. Entire Agreement; Modification. This Agreement constitutes the entire agreement between Optionor and Optionee pertaining to the subject matter contained in it and supersedes all prior and contemporaneous agreements, representations, and understandings. No supplement, modification, or amendment of this Agreement shall be binding and no waiver of any provision in this Agreement effective, unless executed in writing by all the parties.
 28. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Washington.
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IN WITNESS of the foregoing provisions the parties have signed this Agreement below:

OPTIONOR

POPE RESOURCES, a Delaware limited partnership
By POPE MGP, INC., a Delaware corporation
Its Managing General Partner

_____ Date 8/14/03

By David L. Nunes
Its President and Chief Executive Officer

OLYMPIC PROPERTY GROUP LLC, a Washington limited liability company

_____ Date 8/14/03

By Jon Rose
Its President

OPTIONEE

KITSAP COUNTY BOARD OF COMMISSIONERS

_____ Date _____
Jan Angel, Chair

_____ Date _____
Chris Endresen, Commissioner

_____ Date _____
Patty Lent, Commissioner



Addendum
To The North Kitsap Heritage Park Option Agreement (KC-407-03)
Assessor's Property Tax Parcel Numbers
"Parcel A"

332702-4-006-2000 042602-1-001-2002 042602-4-001-2001 032602-2-004-2003 032602-2-005-2002 342702-3-007-2000

"Parcel B"

342702-4-002-2003 342702-4-005-2000 032602-1-006-2003 032602-1-002-2007 032602-1-001-2008

LOAN AGREEMENT

This Agreement dated as of October 26, 2004, is between Bank of America, N.A. (the "Bank") and Pope Resources, A Delaware Limited Partnership (the "Borrower").

1. FACILITY NO. 1: LINE OF CREDIT AMOUNT AND TERMS

1.1 Line of Credit Amount.

- (a) During the availability period described below, the Bank will provide a line of credit to the Borrower. The amount of the line of credit (the "Facility No. 1 Commitment") is Ten Million and 00/100 Dollars (\$10,000,000.00).
- (b) This is a revolving line of credit. During the availability period, the Borrower may repay principal amounts and reborrow them.
- (c) The Borrower agrees not to permit the principal balance outstanding to exceed the Facility No. 1 Commitment. If the Borrower exceeds this limit, the Borrower will immediately pay the excess to the Bank upon the Bank's demand.

1.2 Availability Period. The line of credit is available between the date of this Agreement and October 31, 2005, or such earlier date as the availability may terminate as provided in this Agreement (the "Facility No. 1 Expiration Date").

1.3 Repayment Terms.

- (a) The Borrower will pay interest on November 30, 2004, and then on the same day of each month thereafter until payment in full of any principal outstanding under this facility.
- (b) The Borrower will repay in full any principal, interest or other charges outstanding under this facility no later than the Facility No. 1 Expiration Date. Any interest period for an optional interest rate (as described below) shall expire no later than the Facility No. 1 Expiration Date.

1.4 Interest Rate.

- (a) The interest rate is a rate per year equal to the Bank's Prime Rate.
- (b) The Prime Rate is the rate of interest publicly announced from time to time by the Bank as its Prime Rate. The Prime Rate is set by the Bank based on various factors, including the Bank's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans. The Bank may price loans to its customers at, above, or below the Prime Rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in the Bank's Prime Rate.

1.5 Optional Interest Rates. Instead of the interest rate based on the rate stated in the paragraph entitled "Interest Rate" above, the Borrower may elect the optional interest rates listed below for this Facility No. 1 during interest periods agreed to by the Bank and the Borrower. The optional interest rates shall be subject to the terms and conditions described later in this Agreement. Any principal amount bearing interest at an optional rate under this Agreement is referred to as a "Portion." The following optional interest rates are available:

- (a) The LIBOR Rate plus 1.25 percentage point(s).

1.6 Reduction or Termination of Commitment. Upon five business days notice to the Bank, the Borrower may at any time and from time to time, without premium or penalty, permanently and irrevocably reduce the Facility No. 1 Commitment in the minimum amount of \$1,000,000 and in multiples of \$1,000,000 to an amount not less than the current amount outstanding at such time or may terminate the Facility No. 1 Commitment. Any reduction or termination of the Facility No. 1 Commitment pursuant to this Section 1.6 shall be accompanied by payment of all accrued and unpaid fees with respect to the portion of the Facility No. 1 Commitment being reduced or terminated.

2. OPTIONAL INTEREST RATES

2.1 Optional Rates. Each optional interest rate is a rate per year. Interest will be paid on November 30, 2004, and then on the same day of each month thereafter until payment in full of any principal outstanding under this facility. No Portion will be converted to a different interest rate during the applicable interest period. Upon the occurrence of an event of default under this Agreement, the Bank may terminate the availability of optional interest rates for interest periods commencing after the default occurs. At the end of each interest period, the interest rate will revert to the rate stated in the paragraph(s) entitled "Interest Rate" above, unless the Borrower has designated another optional interest rate for the Portion.

2.2 LIBOR Rate. The election of LIBOR Rates shall be subject to the following terms and requirements:

- (a) The interest period during which the LIBOR Rate will be in effect will be one month, two months, three months or six months. The first day of the interest period must be a day other than a Saturday or a Sunday on which the Bank is open for business in New York and London and dealing in offshore dollars (a "LIBOR Banking Day"). The last day of the interest period and the actual number of days during the interest period will be determined by the Bank using the practices of the London inter-bank market.
- (b) Each LIBOR Rate portion will be for an amount not less than One Hundred Thousand and 00/100 Dollars (\$100,000.00).
- (c) The "LIBOR Rate" means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by the Bank as of the first day of the interest period.)

$$\text{LIBOR Rate} = \frac{\text{London Inter-Bank Offered Rate}}{(1.00 - \text{Reserve Percentage})}$$

Where,

- (i) "London Inter-Bank Offered Rate" means the average per annum interest rate at which U.S. dollar deposits would be offered for the applicable interest period by major banks in the London inter-bank market, as shown on the Telerate Page 3750 (or any successor page) at approximately 11:00 a.m. London time two (2) London Banking Days before the commencement of the interest period. If such rate does not appear on the Telerate Page 3750 (or any successor page), the rate for that interest period will be determined by such alternate method as reasonably selected by the Bank. A "London Banking Day" is a day on which the Bank's London Banking Center is open for business and dealing in offshore dollars.
 - (ii) "Reserve Percentage" means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.
- (d) The Borrower shall irrevocably request a LIBOR Rate Portion no later than 12:00 noon Pacific time on the LIBOR Banking Day preceding the day on which the London Inter-Bank Offered Rate will be set, as specified above. For example, if there are no intervening holidays or weekend days in any of the relevant locations, the request must be made at least three days before the LIBOR Rate takes effect.
 - (e) The Bank will have no obligation to accept an election for a LIBOR Rate Portion if any of the following described events has occurred and is continuing:
 - (i) Dollar deposits in the principal amount, and for periods equal to the interest period, of a LIBOR Rate Portion are not available in the London inter-bank market; or
 - (ii) The LIBOR Rate does not accurately reflect the cost of a LIBOR Rate Portion.

- (f) Each prepayment of a LIBOR Rate Portion, whether voluntary, by reason of acceleration or otherwise, will be accompanied by the amount of accrued interest on the amount prepaid and a prepayment fee as described below. A “prepayment” is a payment of an amount on a date earlier than the scheduled payment date for such amount as required by this Agreement.
- (g) The prepayment fee shall be in an amount sufficient to compensate the Bank for any loss, cost or expense incurred by it as a result of the prepayment, including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Portion or from fees payable to terminate the deposits from which such funds were obtained. The Borrower shall also pay any customary administrative fees charged by the Bank in connection with the foregoing. For purposes of this paragraph, the Bank shall be deemed to have funded each Portion by a matching deposit or other borrowing in the applicable interbank market, whether or not such Portion was in fact so funded.

3. FEES AND EXPENSES

3.1 Fees.

- (a) Unused Commitment Fee. The Borrower agrees to pay a fee on any difference between the Facility No. 1 Commitment and the amount of credit it actually uses, determined by the average of the daily amount of credit outstanding during the specified period. The fee will be calculated at 0.25% per year.

This fee is due on December 31, 2004, and on the same day of each following quarter until the expiration of the availability period.

- (b) Waiver Fee. If the Bank, at its discretion, agrees to waive or amend any terms of this Agreement, the Borrower will, at the Bank’s option, pay the Bank a fee for each waiver or amendment in an amount advised by the Bank at the time the Borrower requests the waiver or amendment. Nothing in this paragraph shall imply that the Bank is obligated to agree to any waiver or amendment requested by the Borrower. The Bank may impose additional requirements as a condition to any waiver or amendment.
- (c) Late Fee. To the extent permitted by law, the Borrower agrees to pay a late fee in an amount not to exceed four percent (4%) of any payment that is more than fifteen (15) days late. The imposition and payment of a late fee shall not constitute a waiver of the Bank’s rights with respect to the default.

- 3.2 Expenses. The Borrower agrees to immediately repay the Bank for expenses that include, but are not limited to, filing, recording and search fees, appraisal fees, title report fees, and documentation fees.

3.3 Reimbursement Costs.

- (a) The Borrower agrees to reimburse the Bank for any expenses it incurs in the preparation of this Agreement and any agreement or instrument required by this Agreement. Expenses include, but are not limited to, reasonable attorneys’ fees, including any allocated costs of the Bank’s in-house counsel to the extent permitted by applicable law.

4. DISBURSEMENTS, PAYMENTS AND COSTS

4.1 Disbursements and Payments.

- (a) Each payment by the Borrower will be made in U.S. Dollars and immediately available funds by direct debit to a deposit account as specified below or, for payments not required to be made by direct debit, by mail to the address shown on the Borrower’s statement or at one of the Bank’s banking centers in the United States.
- (b) Each disbursement by the Bank and each payment by the Borrower will be evidenced by records kept by the Bank. In addition, the Bank may, at its discretion, require the Borrower to sign one or more promissory notes.

4.2 Telephone and Telefax Authorization.

- (a) The Bank may honor telephone or telefax instructions for advances or repayments or for the designation of optional interest rates given, or purported to be given, by any one of the individuals authorized to sign loan agreements on behalf of the Borrower, or any other individual designated by any one of such authorized signers.
- (b) Advances will be deposited in and repayments will be withdrawn from account number 67171710 owned by the Borrower or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower.
- (c) The Borrower will indemnify and hold the Bank harmless from all liability, loss, and costs in connection with any act pursuant to the terms of this Agreement resulting from telephone or telefax instructions the Bank reasonably believes are made by any individual authorized by the Borrower to give such instructions. This paragraph will survive this Agreement's termination, and will benefit the Bank and its officers, employees, and agents.

4.3 Direct Debit (Pre-Billing).

- (a) The Borrower agrees that the Bank will debit deposit account number 67171710 owned by the Borrower or such other of the Borrower's accounts with the Bank as designated in writing by the Borrower (the "Designated Account") on the date each payment of principal and interest and any fees from the Borrower becomes due (the "Due Date").
- (b) Prior to each Due Date, the Bank will mail to the Borrower a statement of the amounts that will be due on that Due Date (the "Billed Amount"). The bill will be mailed a specified number of calendar days prior to the Due Date, which number of days will be mutually agreed from time to time by the Bank and the Borrower. The calculations in the bill will be made on the assumption that no new extensions of credit or payments will be made between the date of the billing statement and the Due Date, and that there will be no changes in the applicable interest rate.
- (c) The Bank will debit the Designated Account for the Billed Amount, regardless of the actual amount due on that date (the "Accrued Amount"). If the Billed Amount debited to the Designated Account differs from the Accrued Amount, the discrepancy will be treated as follows:
 - (i) If the Billed Amount is less than the Accrued Amount, the Billed Amount for the following Due Date will be increased by the amount of the discrepancy. The Borrower will not be in default by reason of any such discrepancy.
 - (ii) If the Billed Amount is more than the Accrued Amount, the Billed Amount for the following Due Date will be decreased by the amount of the discrepancy.

Regardless of any such discrepancy, interest will continue to accrue based on the actual amount of principal outstanding without compounding. The Bank will not pay the Borrower interest on any overpayment.

- (d) The Borrower will maintain sufficient funds in the Designated Account to cover each debit. If there are insufficient funds in the Designated Account on the date the Bank enters any debit authorized by this Agreement, the Bank may reverse the debit.

4.4 Banking Days. Unless otherwise provided in this Agreement, a banking day is a day other than a Saturday, Sunday or other day on which commercial banks are authorized to close, or are in fact closed, in the state where the Bank's lending office is located, and, if such day relates to amounts bearing interest at an offshore rate (if any), means any such day on which dealings in dollar deposits are conducted among banks in the offshore dollar interbank market. All payments and disbursements which would be due on a day which is not a banking day will be due on the next banking day. All payments received on a day which is not a banking day will be applied to the credit on the next banking day.

4.5 Interest Calculation. Except as otherwise stated in this Agreement, all interest and fees, if any, will be computed on the basis of a 360-day year and the actual number of days elapsed. This results in more interest or a higher fee than if a 365-day year is used. Installments of principal which are not paid when due under this Agreement shall continue to bear interest until paid.

4.6 Default Rate. Upon the occurrence of any default under this Agreement, all amounts outstanding under this Agreement, including any interest, fees, or costs which are not paid when due, will at the option of the Bank bear interest at a rate which is 2.0 percentage point(s) higher than the rate of interest otherwise provided under this Agreement. This may result in compounding of interest. This will not constitute a waiver of any default.

5. CONDITIONS

Before the Bank is required to extend any credit to the Borrower under this Agreement, it must receive any documents and other items it may reasonably require, in form and content acceptable to the Bank, including any items specifically listed below.

5.1 Authorizations. If the Borrower or any guarantor is anything other than a natural person, evidence that the execution, delivery and performance by the Borrower and/or such guarantor of this Agreement and any instrument or agreement required under this Agreement have been duly authorized.

5.2 Governing Documents. If required by the Bank, a copy of the Borrower's organizational documents.

5.3 Good Standing. Certificates of good standing for the Borrower from its state of formation and from any other state in which the Borrower is required to qualify to conduct its business.

5.4 Insurance. Evidence of insurance coverage, as required in the "Covenants" section of this Agreement.

6. REPRESENTATIONS AND WARRANTIES

When the Borrower signs this Agreement, and until the Bank is repaid in full, the Borrower makes the following representations and warranties. Each request for an extension of credit constitutes a renewal of these representations and warranties as of the date of the request:

6.1 Formation. If the Borrower is anything other than a natural person, it is duly formed and existing under the laws of the state or other jurisdiction where organized.

6.2 Authorization. This Agreement, and any instrument or agreement required hereunder, are within the Borrower's powers, have been duly authorized, and do not conflict with any of its organizational papers.

6.3 Enforceable Agreement. This Agreement is a legal, valid and binding agreement of the Borrower, enforceable against the Borrower in accordance with its terms, and any instrument or agreement required hereunder, when executed and delivered, will be similarly legal, valid, binding and enforceable.

6.4 Good Standing. In each state in which the Borrower does business, it is properly licensed, in good standing, and, where required, in compliance with fictitious name statutes.

6.5 No Conflicts. This Agreement does not conflict with any law, agreement, or obligation by which the Borrower is bound.

6.6 Financial Information. All financial and other information that has been or will be supplied to the Bank is sufficiently complete to give the Bank accurate knowledge of the Borrower's (and any guarantor's) financial condition, including all material contingent liabilities. Since the date of the most recent financial statement provided to the Bank, there has been no material adverse change in the business condition (financial or otherwise), operations, properties or prospects of the Borrower (or any guarantor). If the Borrower is comprised of the trustees of a trust, the foregoing representations shall also pertain to the trustor(s) of the trust.

6.7 Lawsuits. There is no lawsuit, tax claim or other dispute pending or threatened against the Borrower which, if lost, would impair the Borrower's financial condition or ability to repay the loan, except as have been disclosed in writing to the Bank.

6.8 Permits, Franchises. The Borrower possesses all permits, memberships, franchises, contracts and licenses required and all trademark rights, trade name rights, patent rights, copyrights and fictitious name rights necessary to enable it to conduct the business in which it is now engaged.

6.9 Other Obligations. The Borrower is not in default on any obligation for borrowed money, any purchase money obligation or any other material lease, commitment, contract, instrument or obligation, except as have been disclosed in writing to the Bank.

6.10 Tax Matters. The Borrower has no knowledge of any pending assessments or adjustments of its income tax for any year and all taxes due have been paid, except as have been disclosed in writing to the Bank.

6.11 No Event of Default. There is no event which is, or with notice or lapse of time or both would be, a default under this Agreement.

6.12 Insurance. The Borrower has obtained, and maintained in effect, the insurance coverage required in the "Covenants" section of this Agreement.

7. COVENANTS

The Borrower agrees, so long as credit is available under this Agreement and until the Bank is repaid in full:

7.1 Use of Proceeds. To use the proceeds of Facility No. 1 only for acquisition financing of timberland and other general corporate purposes.

7.2 Financial Information. To provide the following financial information and statements in form and content acceptable to the Bank, and such additional information as requested by the Bank from time to time:

- (a) Within ninety (90) days of the fiscal year end, the annual financial statements of the Borrower, certified and dated by an authorized financial officer. These financial statements must be audited (with an opinion satisfactory to the Bank) by a Certified Public Accountant acceptable to the Bank. The statements shall be prepared on a consolidated basis.
- (b) Within forty five (45) days of the period's end, quarterly financial statements of the Borrower, certified and dated by an authorized financial officer. These financial statements may be company-prepared. The statements shall be prepared on a consolidated basis.
- (c) Within ninety (90) days of the fiscal year end and within forty five (45) days of the end of each quarter, a compliance certificate of the Borrower signed by an authorized financial officer, and setting forth (i) the information and computations (in sufficient detail) to establish that the Borrower is in compliance with all financial covenants at the end of the period covered by the financial statements then being furnished and (ii) whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement and, if any such default exists, specifying the nature thereof and the action the Borrower is taking and proposes to take with respect thereto.

7.3 Profitability. To maintain on a consolidated basis a positive net income before taxes and extraordinary items to be measured as of the date twelve (12) months prior to the current financial statement.

7.4 Debt to Capitalization Ratio. To maintain on a consolidated basis a ratio of Total Funded Debt divided by the sum of Funded Debt and Market Capitalization or Partnership Capital (whichever is higher at the statement date) not exceeding 0.5:1.0.

"Funded Debt" means all interest bearing borrowed debt including current portion of long term debt.

"Market Capitalization" means the partnership unit multiplied by current unit price.

"Partnership Capital" means the book value of partnership capital on the balance sheet.

7.5 Debt Service Coverage Ratio. To maintain on a consolidated basis a Debt Service Coverage Ratio of at least 1.1:1.0.

"Debt Service Coverage Ratio" means EBITDA (Net Income plus Depreciation plus Amortization plus Depletion plus Interest plus Tax) minus unfunded CAPEX divided by sum of the interest payments and required principal payments

This ratio will be calculated at the end of each reporting period for which the Bank requires financial statements, using the results of the twelve-month period ending with that reporting period. The current portion of long-term liabilities will be measured as of the date twelve (12) months prior to the current financial statement.

7.6 Dividends and Distributions. Not to declare or pay dividends, redemptions of stock or membership interests, distributions and withdrawals (as applicable) to its owners, except:

- (a) dividends payable in capital stock;
- (b) distributions to owners, or purchase, redemption or acquisition of stock or membership interests or options, warrants or similar rights with respect to stock or membership interests, up to an aggregate dollar amount of all such distributions, purchases, redemptions and acquisitions in any fiscal year that does not exceed 50% of net income for such fiscal year; and
- (c) distributions to pay the reasonably estimated federal and state income tax payable by each owner of the Borrower on such owner's share of the taxable income of the Borrower (as calculated for federal income tax purposes as if all owners have the same basis in the Borrower's assets as does the Borrower itself); provided that in no event shall the Borrower declare or make distributions in any fiscal year, regardless of the type of or reason for such distributions, in excess of 75% of net income for such year and or purchase, redeem or retire any outstanding membership interests in after giving effect to such purchase, redemption or retirement, the Borrower would be in violation of any of the terms or covenants of this Agreement.

7.7 Bank as Principal Depository. To maintain the Bank as its principal depository bank, including for the maintenance of business, cash management, operating and administrative deposit accounts.

7.8 Other Debts. Not to have outstanding or incur any direct or contingent liabilities or lease obligations (other than those to the Bank), or become liable for the liabilities of others, without the Bank's written consent. This does not prohibit:

- (a) Acquiring goods, supplies, or merchandise on normal trade credit.
- (b) Endorsing negotiable instruments received in the usual course of business.
- (c) Obtaining surety bonds in the usual course of business.
- (d) Liabilities, lines of credit and leases in existence on the date of this Agreement disclosed in writing to the Bank.
- (e) Additional interest bearing unsecured debts and lease obligations for business purposes which do not exceed a total principal amount of Five Hundred Thousand and 00/100 Dollars (\$500,000.00) outstanding at any one time.
- (f) Direct or contingent liabilities not exceeding in the aggregate One Million Dollars (\$1,000,000).
- (g) Indebtedness to John Hancock Life Insurance Co. in an amount not to exceed Thirty Eight Million and 00/100 Dollars (\$38,000,000.00).

7.9 Other Liens. Not to create, assume, or allow any security interest or lien (including judicial liens) on property the Borrower now or later owns, including without limitation the Columbia Tree Farm lands and other timberlands, except:

- (a) Liens and security interests in favor of the Bank.
- (b) Liens for taxes not yet due.
- (c) Liens outstanding on the date of this Agreement disclosed in writing to the Bank.
- (d) Liens securing indebtedness that in the aggregate does not exceed Five Hundred Thousand and 00/100 (\$500,000.00) at any one time.
- (e) Deeds of Trust on the Jefferson County and Kitsap County timberland commonly referred to as "Hood Canal Tree Farm" securing the indebtedness to John Hancock Life Insurance Co. described in Section 7.7(f) hereof.

7.10 Maintenance of Assets.

- (a) Not to sell, assign, lease, transfer or otherwise dispose of any part of the Borrower's business or the Borrower's assets except in an aggregate amount not exceeding One Million and 00/100 Dollars (\$1,000,000.00) in any fiscal year provided that Borrower's subsidiaries may purchase and sell real property in the ordinary course of business.
- (b) Not to sell, assign, lease, transfer or otherwise dispose of any assets for less than fair market value, or enter into any agreement to do so.
- (c) Not to enter into any sale and leaseback agreement covering any of its fixed assets.
- (d) To maintain and preserve all rights, privileges, and franchises the Borrower now has.
- (e) To make any repairs, renewals, or replacements to keep the Borrower's properties in good working condition.

7.11 Investments. Not to have any existing, or make any new, investments in any individual or entity, or make any capital contributions or other transfers of assets to any individual or entity, except for:

- (a) Existing investments disclosed to the Bank in writing.
- (b) Investments in the Borrower's current subsidiaries and a subsidiary to be created in connection with property known as Port Gamble.
- (c) Investments in any of the following:
 - (i) certificates of deposit;
 - (ii) U.S. treasury bills and other obligations of the federal government;
 - (iii) readily marketable securities (including commercial paper, but excluding restricted stock and stock subject to the provisions of Rule 144 of the Securities and Exchange Commission).
- (d) Investments that do not exceed an aggregate amount of Six Million and 00/100 Dollars (\$6,000,000.00) outstanding at any one time.

7.12 Loans. Not to make any loans, advances or other extensions of credit to any individual or entity, except for:

- (a) Existing extensions of credit disclosed to the Bank in writing.
- (b) Extensions of credit to the Borrower's current subsidiaries.
- (c) Extensions of credit in the nature of accounts receivable or notes receivable arising from the sale or lease of goods, services or real property in the ordinary course of business to non-affiliated entities.

7.13 Change of Management. Not to make any substantial change in the present executive or management personnel of the Borrower.

7.14 Change of Ownership. Not to cause, permit, or suffer any change in capital ownership such that there is a change of more than twenty-five percent (25%) in the direct or indirect capital ownership of the Borrower.

7.15 Additional Negative Covenants. Not to, without the Bank's written consent:

- (a) Enter into any consolidation, merger, or other combination, or become a partner in a partnership, a member of a joint venture, or a member of a limited liability company except for the creation of wholly-owned subsidiaries in borrower's ordinary course of business.
- (b) Acquire or purchase a business or its assets for a consideration, including assumption of direct or contingent debt.
- (c) Engage in any business activities substantially different from the Borrower's present business.
- (d) Liquidate or dissolve the Borrower's business.
- (e) Voluntarily suspend the Borrower's business for more than seven (7) days in any thirty (30) day period.

7.16 Notices to Bank. To promptly notify the Bank in writing of:

- (a) Any lawsuit over One Million and 00/100 Dollars (\$1,000,000.00) against the Borrower (or any guarantor or, if the Borrower is comprised of the trustees of a trust, any trustor).
- (b) Any substantial dispute between any governmental authority and the Borrower (or any guarantor or, if the Borrower is comprised of the trustees of a trust, any trustor) that could have a material adverse impact on the Borrower.
- (c) Any event of default under this Agreement, or any event which, with notice or lapse of time or both, would constitute an event of default.
- (d) Any material adverse change in the Borrower's (or any guarantor's, or, if the Borrower is comprised of the trustees of a trust, any trustor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit.
- (e) Any change in the Borrower's name, legal structure, place of business, or chief executive office if the Borrower has more than one place of business.
- (f) Any actual contingent liabilities of the Borrower (or any guarantor or, if the Borrower is comprised of the trustees of a trust, any trustor), and any such contingent liabilities which are reasonably foreseeable, where such liabilities are in excess of One Million and 00/100 Dollars (\$1,000,000.00) in the aggregate.

7.17 Insurance.

- (a) General Business Insurance. To maintain insurance satisfactory to the Bank as to amount, nature and carrier covering property damage (including loss of use and occupancy) to any of the Borrower's properties, business interruption insurance, public liability insurance including coverage for contractual liability, product liability and workers' compensation, and any other insurance which is usual for the Borrower's business. Each policy shall provide for at least 30 days prior notice to the Bank of any cancellation thereof.

7.18 Compliance with Laws. To comply with the laws (including any fictitious or trade name statute), regulations, and orders of any government body with authority over the Borrower's business.

7.19 ERISA Plans. Promptly during each year, to pay and cause any subsidiaries to pay contributions adequate to meet at least the minimum funding standards under ERISA with respect to each and every Plan; file each annual report required to be filed pursuant to ERISA in connection with each Plan for each year; and notify the Bank within ten (10) days of the occurrence of any Reportable Event that might constitute grounds for termination of any capital Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any Plan. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time. Capitalized terms in this paragraph shall have the meanings defined within ERISA.

7.20 Books and Records. To maintain adequate books and records.

7.21 Audits. To allow the Bank and its agents, upon reasonable notice, to inspect the Borrower's properties and examine, audit, and make copies of books and records at any reasonable time. If any of the Borrower's properties, books or records are in the possession of a third party, the Borrower authorizes that third party to permit the Bank or its agents to have access to perform inspections or audits and to respond to the Bank's requests for information concerning such properties, books and records.

7.22 Cooperation. To take any action reasonably requested by the Bank to carry out the intent of this Agreement.

8. DEFAULT AND REMEDIES

If any of the following events of default occurs, the Bank may do one or more of the following: declare the Borrower in default, stop making any additional credit available to the Borrower, and require the Borrower to repay its entire debt immediately and without prior notice. If an event which, with notice or the passage of time, will constitute an event of default has occurred and is continuing, the Bank has no obligation to make advances or extend additional credit under this Agreement. In addition, if any event of default occurs, the Bank shall have all rights, powers and remedies available under any instruments and agreements required by or executed in connection with this Agreement, as well as all rights and remedies available at law or in equity. If an event of default occurs under the paragraph entitled "Bankruptcy," below, with respect to the Borrower, then the entire debt outstanding under this Agreement will automatically be due immediately.

8.1 Failure to Pay. The Borrower fails to make a payment under this Agreement when due.

8.2 Other Bank Agreements. Any default occurs under any other agreement the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has with the Bank or any affiliate of the Bank. For purposes of this Agreement, "Obligor" shall mean any guarantor, any party pledging collateral to the Bank, or, if the Borrower is comprised of the trustees of a trust, any trustor. If, in the Bank's opinion, the breach is capable of being remedied, the breach will not be considered an event of default under this Agreement for a period of thirty (30) days after the date on which the Bank gives written notice of the breach to the Borrower.

8.3 Cross-default. Any default occurs under any agreement in connection with any credit the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has obtained from anyone else or which the Borrower (or any Obligor) or any of the Borrower's related entities or affiliates has guaranteed if the default is not cured within thirty (30) days..

8.4 False Information. The Borrower or any Obligor has given the Bank false or misleading information or representations.

8.5 Bankruptcy. The Borrower, any Obligor, or any general partner of the Borrower or of any Obligor files a bankruptcy petition, a bankruptcy petition is filed against any of the foregoing parties, or the Borrower, any Obligor, or any general partner of the Borrower or of any Obligor makes a general assignment for the benefit of creditors.

8.6 Receivers. A receiver or similar official is appointed for a substantial portion of the Borrower's or any Obligor's business, or the business is terminated, or, if any Obligor is anything other than a natural person, such Obligor is liquidated or dissolved.

8.7 Judgments. Any judgments or arbitration awards are entered against the Borrower or any Obligor, or the Borrower or any Obligor enters into any settlement agreements with respect to any litigation or arbitration, in an aggregate amount of Two Million Five Hundred Thousand and 00/100 Dollars (\$2,500,000.00) or more in excess of any insurance coverage.

8.8 Material Adverse Change. A material adverse change occurs, or is reasonably likely to occur, in the Borrower's (or any Obligor's) business condition (financial or otherwise), operations, properties or prospects, or ability to repay the credit; or the Bank determines that it is insecure for any other reason.

8.9 Government Action. Any government authority takes action that the Bank believes materially adversely affects the Borrower's or any Obligor's financial condition or ability to repay.

8.10 Default under Related Documents. Any default occurs under any guaranty, subordination agreement, security agreement, deed of trust, mortgage, or other document required by or delivered in connection with this Agreement or any such document is no longer in effect, or any guarantor purports to revoke or disavow the guaranty.

8.11 ERISA Plans. Any one or more of the following events occurs with respect to a Plan of the Borrower subject to Title IV of ERISA, provided such event or events could reasonably be expected, in the judgment of the Bank, to subject the Borrower to any tax, penalty or liability (or any combination of the foregoing) which, in the aggregate, could have a material adverse effect on the financial condition of the Borrower:

(a) A reportable event shall occur under Section 4043(c) of ERISA with respect to a Plan.

(b) Any Plan termination (or commencement of proceedings to terminate a Plan) or the full or partial withdrawal from a Plan by the Borrower or any ERISA Affiliate.

8.12 Other Breach Under Agreement. A default occurs under any other term or condition of this Agreement not specifically referred to in this Article. This includes any failure or anticipated failure by the Borrower (or any other party named in the Covenants section) to comply with the financial covenants set forth in this Agreement, whether such failure is evidenced by financial statements delivered to the Bank or is otherwise known to the Borrower or the Bank. If, in the Bank's opinion, the breach is capable of being remedied, the breach will not be considered an event of default under this Agreement for a period of thirty (30) days after the date on which the Bank gives written notice of the breach to the Borrower.

9. ENFORCING THIS AGREEMENT; MISCELLANEOUS

9.1 GAAP. Except as otherwise stated in this Agreement, all financial information provided to the Bank and all financial covenants will be made under generally accepted accounting principles, consistently applied.

9.2 Washington Law. This Agreement is governed by Washington state law.

9.3 Successors and Assigns. This Agreement is binding on the Borrower's and the Bank's successors and assignees. The Borrower agrees that it may not assign this Agreement without the Bank's prior consent. The Bank may sell participations in or assign this loan, and may exchange financial information about the Borrower with actual or potential participants or assignees. If a participation is sold or the loan is assigned, the purchaser will have the right of set-off against the Borrower.

9.4 Arbitration and Waiver of Jury Trial

- (a) This paragraph concerns the resolution of any controversies or claims between the parties, whether arising in contract, tort or by statute, including but not limited to controversies or claims that arise out of or relate to: (i) this agreement (including any renewals, extensions or modifications); or (ii) any document related to this agreement (collectively a "Claim"). For the purposes of this arbitration provision only, the term "parties" shall include any parent corporation, subsidiary or affiliate of the Bank involved in the servicing, management or administration of any obligation described or evidenced by this agreement.
- (b) At the request of any party to this agreement, any Claim shall be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, U. S. Code) (the "Act"). The Act will apply even though this agreement provides that it is governed by the law of a specified state.
- (c) Arbitration proceedings will be determined in accordance with the Act, the applicable rules and procedures for the arbitration of disputes of JAMS or any successor thereof ("JAMS"), and the terms of this paragraph. In the event of any inconsistency, the terms of this paragraph shall control.
- (d) The arbitration shall be administered by JAMS and conducted, unless otherwise required by law, in any U. S. state where real or tangible personal property collateral for this credit is located or if there is no such collateral, in the state specified in the governing law section of this agreement. All Claims shall be determined by one arbitrator; however, if Claims exceed Five Million Dollars (\$5,000,000), upon the request of any party, the Claims shall be decided by three arbitrators. All arbitration hearings shall commence within ninety (90) days of the demand for arbitration and close within ninety (90) days of commencement and the award of the arbitrator(s) shall be issued within thirty (30) days of the close of the hearing. However, the arbitrator(s), upon a showing of good cause, may extend the commencement of the hearing for up to an additional sixty (60) days. The arbitrator(s) shall provide a concise written statement of reasons for the award. The arbitration award may be submitted to any court having jurisdiction to be confirmed and enforced.
- (e) The arbitrator(s) will have the authority to decide whether any Claim is barred by the statute of limitations and, if so, to dismiss the arbitration on that basis. For purposes of the application of the statute of limitations, the service on JAMS under applicable JAMS rules of a notice of Claim is the equivalent of the filing of a lawsuit. Any dispute concerning this arbitration provision or whether a Claim is arbitrable shall be determined by the arbitrator(s). The arbitrator(s) shall have the power to award legal fees pursuant to the terms of this agreement.

- (f) This paragraph does not limit the right of any party to: (i) exercise self-help remedies, such as but not limited to, setoff; (ii) initiate judicial or non-judicial foreclosure against any real or personal property collateral; (iii) exercise any judicial or power of sale rights, or (iv) act in a court of law to obtain an interim remedy, such as but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.
- (g) The filing of a court action is not intended to constitute a waiver of the right of any party, including the suing party, thereafter to require submittal of the Claim to arbitration.
- (h) By agreeing to binding arbitration, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of any Claim. Furthermore, without intending in any way to limit this agreement to arbitrate, to the extent any Claim is not arbitrated, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of such Claim. This provision is a material inducement for the parties entering into this agreement.

9.5 Severability; Waivers. If any part of this Agreement is not enforceable, the rest of the Agreement may be enforced. The Bank retains all rights, even if it makes a loan after default. If the Bank waives a default, it may enforce a later default. Any consent or waiver under this Agreement must be in writing.

9.6 Attorneys' Fees. The Borrower shall reimburse the Bank for any reasonable costs and attorneys' fees incurred by the Bank in connection with the enforcement or preservation of any rights or remedies under this Agreement and any other documents executed in connection with this Agreement, and in connection with any amendment, waiver, "workout" or restructuring under this Agreement. In the event of a lawsuit or arbitration proceeding, the prevailing party is entitled to recover costs and reasonable attorneys' fees incurred in connection with the lawsuit or arbitration proceeding, as determined by the court or arbitrator. In the event that any case is commenced by or against the Borrower under the Bankruptcy Code (Title 11, United States Code) or any similar or successor statute, the Bank is entitled to recover costs and reasonable attorneys' fees incurred by the Bank related to the preservation, protection, or enforcement of any rights of the Bank in such a case. As used in this paragraph, "attorneys' fees" includes the allocated costs of the Bank's in-house counsel.

9.7 Intentionally omitted.

9.8 One Agreement. This Agreement and any related security or other agreements required by this Agreement, collectively:

- (a) represent the sum of the understandings and agreements between the Bank and the Borrower concerning this credit;
- (b) replace any prior oral or written agreements between the Bank and the Borrower concerning this credit; and
- (c) are intended by the Bank and the Borrower as the final, complete and exclusive statement of the terms agreed to by them.

In the event of any conflict between this Agreement and any other agreements required by this Agreement, this Agreement will prevail. Any reference in any related document to a "promissory note" or a "note" executed by the Borrower and dated as of the date of this Agreement shall be deemed to refer to this Agreement, as now in effect or as hereafter amended, renewed, or restated.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

9.9 Indemnification. The Borrower will indemnify and hold the Bank harmless from any loss, liability, damages, judgments, and costs of any kind relating to or arising directly or indirectly out of (a) this Agreement or any document required hereunder, (b) any credit extended or committed by the Bank to the Borrower hereunder, and (c) any litigation or proceeding related to or arising out of this Agreement, any such document, or any such credit. This indemnity includes but is not limited to attorneys' fees (including the allocated cost of in-house counsel). This indemnity extends to the Bank, its parent, subsidiaries and all of their directors, officers, employees, agents, successors, attorneys, and assigns. This indemnity will survive repayment of the Borrower's obligations to the Bank. All sums due to the Bank hereunder shall be obligations of the Borrower, due and payable immediately without demand.

9.10 Notices. Unless otherwise provided in this Agreement or in another agreement between the Bank and the Borrower, all notices required under this Agreement shall be personally delivered or sent by first class mail, postage prepaid, or by overnight courier, to the addresses on the signature page of this Agreement, or sent by facsimile to the fax numbers listed on the signature page, or to such other addresses as the Bank and the Borrower may specify from time to time in writing. Notices and other communications shall be effective (i) if mailed, upon the earlier of receipt or five (5) days after deposit in the U.S. mail, first class, postage prepaid, (ii) if telecopied, when transmitted, or (iii) if hand-delivered, by courier or otherwise (including telegram, lettergram or mailgram), when delivered.

9.11 Headings. Article and paragraph headings are for reference only and shall not affect the interpretation or meaning of any provisions of this Agreement.

9.12 Counterparts. This Agreement may be executed in as many counterparts as necessary or convenient, and by the different parties on separate counterparts each of which, when so executed, shall be deemed an original but all such counterparts shall constitute but one and the same agreement.

This Agreement is executed as of the date stated at the top of the first page.

Borrower:

Bank:

Pope Resources, A Delaware Limited Partnership

Bank of America, N.A.

By: Pope MGP, Inc., Managing General Partner

By:

By:

Thomas M. Ringo, Vice President & CFO

Officer Name and Title

Address where notices to the Borrower are to be sent:

Address where notices to the Bank are to be sent:

Pope Resources, A Delaware Limited Partnership
19245 10th Avenue Northeast
Poulsbo, WA 98370
Telephone: 360-394-0520
Facsimile: 360-697-1476

Bank of America, N.A.
800 Fifth Avenue, Floor 13, WA1-501-13-30
Seattle, WA 98104
Telephone: 206-358-8549
Facsimile: 206-585-5641

**PURCHASE & SALE AGREEMENT
(WORTHINGTON BLOCKS IV AND V)
(JEFFERSON COUNTY, WASHINGTON)**

POPE RESOURCES, a Delaware limited partnership (“BUYER”), hereby agrees to purchase from the ESTATE OF TRENA B. WORTHINGTON, deceased, (“SELLER”), and SELLER, subject to the terms and conditions contained herein, hereby agrees to sell and convey to BUYER that certain real estate located in Jefferson County, Washington, described on Exhibit A attached hereto, together with all rights, privileges and easements appurtenant thereto (“the Property”), for the price and upon the following terms and conditions:

1. PURCHASE PRICE; EARNEST MONEY DEPOSIT.

BUYER hereby agrees to pay for the Property the amount of TWELVE MILLION THREE HUNDRED THOUSAND DOLLARS (US\$12,300,000) (“the Purchase Price”).

As part of a sealed bid on the Property, BUYER proffered a check payable to THURSTON COUNTY TITLE COMPANY, INC. (“the Title Company”) in the sum of ONE MILLION TWO HUNDRED FIFTY THOUSAND DOLLARS (US\$1,250,000). BUYER acknowledges and agrees that such sum exceeds ten percent (10%) of the Purchase Price. Upon signing of this Agreement by SELLER (which date shall be “the date of this Agreement”), that check shall be deposited and held by the Title Company in an insured, interest-bearing account; all principal and interest in such account is herein referred to as the “Earnest Money Deposit”.

2. TERMS OF SALE.

At Closing (defined as the date the purchase price is paid to SELLER and the deed is recorded) the balance of Purchase Price shall be paid to SELLER in cash, by official bank cashier’s check, or by wiring immediately available Federal Funds to the closing agent or to such bank account as SELLER shall designate to BUYER. The Earnest Money Deposit shall be credited against the Purchase Price.

3. CLOSING AND RELATED COSTS.

SELLER shall pay the premium for a standard coverage owner’s title insurance policy without endorsements or extended coverage, in the amount of the Purchase Price, one-half of the closing escrow agent’s fee, SELLER’S attorneys fees incurred in this transaction, all recording fees to record documents needed to clear any title exceptions required to be removed by SELLER under the terms hereof, documentary stamps, and the real estate excise taxes. BUYER shall pay all other closing costs and settlement expenses, including without limitation, use or other taxes, recording fees to record the deed from SELLER, all fees and expenses of BUYER’S attorneys, premiums for any title policy endorsements or extended coverage, one-half of the closing escrow agent’s fee, as well as any survey, environmental audit and other due diligence costs of BUYER. Real estate taxes, and utilities constituting liens shall be prorated as of the date of Closing. BUYER shall be responsible and shall indemnify SELLER for any taxes attributable to all periods after Closing, including without limitation all taxes, interest and penalties levied and assessed if BUYER’S acquisition of the Property results in a change in the forest, open space, timberland or similar non-ad valorem tax classification or designation applicable to the Property. SELLER shall not be obligated or under any duty to close this transaction in the event of the filing of any bankruptcy or insolvency petition or action by or against BUYER. Neither party shall have any obligation to the other and this Agreement shall become effective and in full force only when this Agreement is duly and properly executed, authorized and delivered by the parties hereto.

4. CONVEYANCE.

SELLER has delivered to BUYER a copy of the commitment for title insurance (the "Title Report") for the Property issued by Jefferson Title Company under Order No. 63124 and Supplemental No. 1 thereto. At Closing, SELLER shall convey the Property by Special Warranty Deed (the "Deed") in substantially the form attached as Exhibit B. The Deed shall be subject to (a) all matters of record, including without limitation the title exceptions disclosed in the Title Report, except (i) Title Report Special Exception No. 12 relating to Easement Agreement dated December 10, 1999, recorded on March 15, 2000, under Jefferson County Auditor's File No. 431936, and (ii) Title Report Special Exception No. 17 relating to Quit Claim Deeds recorded under Jefferson County Auditor's File Nos. 356244 and 356797; (b) the matters disclosed in this Agreement; (c) current and subsequent real estate taxes; (d) all outstanding mineral rights or reservations; (e) roadways; (f) rights of way; (g) other easements; and (h) all other matters affecting title to the Property which would be disclosed by a thorough physical inspection or an accurate survey of the Property (the "Permitted Exceptions"). SELLER covenants to cause Title Report Special Exception No. 12 relating to Easement Agreement dated December 10, 1999, recorded on March 15, 2000, under Jefferson County Auditor's File No. 431936, and Title Report Special Exception No. 17 relating to Quit Claim Deeds recorded under Jefferson County Auditor's File Nos. 356244 and 356797, to be removed from the Title Report prior to Closing, and such exceptions shall not appear in the title insurance policy to be issued to BUYER at or after Closing.

5. CLOSING.

Closing shall occur on any date selected by SELLER that is fourteen (14) days or more after SELLER's written notice to BUYER of such closing date. If Closing does not occur by close of business December 1, 2004, then this Agreement shall terminate effective that date, unless the date of Closing is extended in writing by mutual agreement. THE PARTIES AGREE THAT TIME IS OF THE ESSENCE WITH RESPECT TO THIS AGREEMENT. Notwithstanding the foregoing, in the event that either BUYER, SELLER, or the closing agent is prevented from completing the Closing because of any event outside their reasonable control notwithstanding the exercise of due care, including without limitation any act of war, act of terrorism, labor strike, unavailability of banking or delivery services, or natural disaster, then the Closing shall be postponed until the next business day upon which the Closing is not prevented by such event, provided, however, that in no event shall the Closing occur after the termination date set forth above. Closing shall be through an independent escrow established with Thurston County Title Company, 105 E. Eighth Avenue, Olympia, WA 98501. BUYER shall have possession of the Property upon Closing.

6. BREACH; REMEDIES.

If SELLER defaults hereunder or fails, without legal excuse, to close as required herein, BUYER, at its election, may (a) terminate this Agreement and obtain a refund of the Earnest Money Deposit or (b) bring an action for specific performance. If BUYER defaults hereunder or fails, without legal excuse, to close as required herein, SELLER, at its election, may (a) terminate this Agreement and receive the Earnest Money Deposit as liquidated damages and not as a penalty, the Earnest Money Deposit constituting, in such event, a reasonable estimate of SELLER'S damages, (b) bring an action for specific performance, (c) terminate SELLER'S obligations to perform further under this Agreement and bring an action for damages, or (d) pursue any and all remedies in addition to or by way of alternative to the foregoing available at law or in equity.

BUYER and SELLER expressly agree that (i) in the event of BUYER'S failure to close without legal excuse actual damages may be difficult to ascertain, (ii) the Earnest Money Deposit has been specifically negotiated and represents the parties' reasonable estimation of the damages considering all of the circumstances existing on the date of this Agreement, including the relationship of the sum to the range of harm to SELLER that reasonably could be anticipated and the expectation that proof of actual damages would be impractical or extremely difficult, and (iii) the disbursement of the Earnest Money Deposit to SELLER in such event constitutes liquidated damages, not a penalty, and represents compensation for the detriment to SELLER resulting from the removal of the Property from the market, entering into this Agreement rather than selling to other potential purchasers, and carrying costs and loss of earnings on the amount of the purchase price resulting from a delay in Closing. BUYER hereby waives all rights or benefits of any law, rule or regulation, now or hereinafter existing, which would allow BUYER following BUYER'S failure to purchase the Property (which event would constitute BUYER'S default), to claim a refund of the Earnest Money Deposit as unearned earnest money, a penalty or on any other basis.

7. CONDITION OF PROPERTY.

BUYER acknowledges and agrees for itself and its successors and assigns (i) that it has inspected and is thoroughly familiar with the Property and its physical aspects and is acquiring the Property in its “as is” condition, (ii) that BUYER assumes the responsibility and risks of all defects to and conditions in the Property, including defects and conditions, if any, that cannot be observed by inspection, (iii) that SELLER has not made and makes no representations or warranties of any kind with respect to acreage or the condition of the Property or its fitness, suitability or acceptability for any particular use or purpose; (iv) that SELLER shall not be liable for any latent or patent defects therein, (v) SELLER is selling the Property by the tract or parcel only, it being understood and agreed that the acreage of the Property is not guaranteed or warranted in any way by SELLER, and (vi) that SELLER shall have no obligation to repair or make any improvements to the condition of the Property prior to Closing. By purchasing the Property, BUYER acknowledges and agrees for itself and its successors and assigns (i) that it has been given a reasonable opportunity to inspect and to investigate the Property and the timber thereon either independently or through agents of BUYER’S choosing, (ii) that any information, whether written or oral, or in the form of maps, surveys, cruise data, inventory information, plats, soil reports, engineering studies, environmental studies, inspection reports, plans, specifications, or any other information whatsoever, without exception, pertaining to the Property and the timber thereon, any and all other matters concerning the condition, suitability, integrity, marketability, compliance with law, or other attributes or aspects of the Property and the timber thereon, is furnished to BUYER solely as a courtesy, that neither SELLER nor its representatives have warranted or verified the accuracy of any statements or other information therein contained nor the qualifications of the persons preparing such information, (iii) that access is not guaranteed by SELLER and that BUYER is responsible for determining access to the Property, including, contacting any responsible government agencies regarding access permits, restrictions or existing hazards, (iv) that mineral rights will not be included if not currently owned by SELLER, (v) that BUYER is also responsible for evaluating whether the Property is suitable for BUYER’S intended purpose and any and all environmental, land use, regulatory and other constraints relating to the use of the Property or the harvest of timber therefrom, (vi) that BUYER shall be solely responsible for obtaining all permits and licenses, if any, required of or by BUYER to carry on its intended operations or activities on the Property, and (vii) that BUYER is responsible for determining the existence or nonexistence of access or from the Property or any portion thereof, whether the Property or any portion thereof is within any flood plain, flood prone area, watershed or “wetlands” area, the availability of water, sewer, electrical, gas, or other utility services or the amount and type of timber on the Property.

Without limiting the generality of the foregoing, SELLER EXPRESSLY DISCLAIMS ALL WARRANTIES RELATING TO THE PROPERTY, INCLUDING, WITHOUT LIMITATION ANY IMPLIED WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND SUITABILITY FOR BUYER’S INTENDED USE AS WELL AS ANY WARRANTY WHATSOEVER WITH RESPECT TO THE MARKETABILITY, HARVESTABILITY, AGE, SPECIES MIX, SITE CLASSIFICATION, BOUNDARIES OF THE TIMBER OR THE PROPERTY, QUANTITIES, GRADES, OR QUALITY OF ANY TIMBER OR MINERALS ON THE PROPERTY, PRESENCE OR ABSENCE OF THREATENED OR ENDANGERED SPECIES OR HAZARDOUS MATERIALS OR THE AVAILABILITY OR ADEQUACY OF ACCESS TO THE PROPERTY.

8. REPRESENTATIONS AND WARRANTIES OF SELLER.

SELLER hereby represents and warrants to BUYER as follows (such representations and warranties shall be true as of the date hereof and as of Closing):

8.1 Status of Estate. SELLER is the Estate of Trena B. Worthington, a deceased person. The Estate is under probate in Thurston County, Washington, Superior Court Cause No.03-4-00350-1.

8.2 Personal Representative's Authority. SELLER is acting through its Personal Representative, Dorothy M. Wack, who has all the power and authority to execute, deliver and perform all of SELLER'S obligations under this Agreement. This Agreement is a valid obligation binding upon the SELLER in accordance with its terms.

8.3 No Adverse Results from Sale. The execution and delivery of this Agreement and the consummation of the transaction contemplated hereby will neither constitute an event of default under any agreement to which SELLER is a party, or by which SELLER is bound, nor an event which would result in the creation or imposition of any valid lien, charge or encumbrance on the Property.

8.4 No Restriction. There is neither pending nor, to the best of SELLER'S knowledge, threatened, any legal action, arbitration, or administrative hearing before any governmental authority to which SELLER is a party and which could enjoin or restrict SELLER'S right or ability to perform its obligations under this Agreement.

9. REPRESENTATIONS AND WARRANTIES OF BUYER.

BUYER hereby makes the following representations and warranties, each of which is material and is being relied upon by SELLER and is true as of the date hereof and will be true as of Closing:

9.1 Incorporation. BUYER is a limited partnership duly organized, validly existing, and in good standing under the laws of the State of Delaware and authorized to transact business in the State of Washington.

9.2 Corporate Authorization. BUYER has all the power and authority to execute, deliver, and perform all of BUYER'S obligations under this Agreement. This Agreement is a valid obligation binding upon the BUYER in accordance with its terms.

9.3 No Adverse Results from Sale. The execution and delivery of this Agreement and the consummation of the transaction contemplated hereby will neither constitute an event of default under any agreement to which BUYER is a party, or by which BUYER is bound, nor an event which would result in the creation or imposition of any valid lien, charge or encumbrance on the Property.

9.4 No Restriction. There is neither pending nor, to the best of BUYER'S knowledge, threatened, any legal action, arbitration, or administrative hearing before any governmental authority to which BUYER is a party and which could enjoin or restrict BUYER'S right or ability to perform its obligations under this Agreement.

9.5 Insolvency. There are no attachments, executions, assignments for the benefit of creditors, or proceedings in bankruptcy or under any other debtor relief laws contemplated by or pending or, to the best of BUYER'S knowledge, threatened by or against BUYER.

9.6 Document Review. BUYER has had a full and complete opportunity to review all recorded documents affecting the Property (as disclosed in the Title Report) and accepts and approves the same.

9.7 Due Diligence. BUYER acknowledges and agrees that BUYER is solely responsible for performing its due diligence with respect to the purchase of the Property, including without limitation determining the boundary lines and corners of the Property and that SELLER and SELLER'S representatives have not made any representations or warranties with respect to the same. By purchasing the Property BUYER acknowledges that it is fully satisfied with the results of its due diligence.

9.8 Sufficient Funds. BUYER has sufficient funds to close this transaction.

10. INDEMNITY.

Each party (the "Indemnitor") agrees to indemnify and hold harmless the other party (the "Indemnitee") from and against any and all claims, losses, liabilities, and expenses (including reasonable attorneys' fees at trial and on any appeal or review) incurred by the Indemnitee and arising out of any breach of any representation or warranty of the Indemnitor contained in this Agreement, provided that notice of such breach is given in writing not later than two years following the Closing Date. BUYER shall indemnify, defend and hold SELLER harmless from any claim by a third party or any fines, penalties or clean up obligations under any applicable laws arising in any manner out of the operations or activities of BUYER on the Property after BUYER takes possession of the Property.

11. RISK OF LOSS OR DAMAGE.

SELLER shall bear the risk of loss or damage to the Property and improvements thereon from any cause whatsoever, or condemnation of any portion of the Property, prior to Closing. In the event of such loss, damage, or condemnation prior to Closing, BUYER, at its election, may terminate this Agreement. If BUYER does not elect to terminate this Agreement for said reasons, the transaction shall be closed as otherwise agreed to, without reduction in Purchase Price, unless the parties shall agree thereto. In the event both parties are not able to agree to close without reduction in Purchase Price, or agree on any adjustment in Purchase Price, then this transaction shall terminate without any further liability of either party to the other, except that SELLER shall refund to BUYER the Earnest Money Deposit.

12. BROKER'S FEE.

Neither party has had any contact or dealings regarding the Real Property, or any communication in connection with the subject of this transaction, through any licensed real estate broker or other person who can claim a right to a commission or finder's fee as a procuring cause of the purchase and sale contemplated by this Agreement. If any other broker or finder perfects a claim for a commission or finder's fee, dealing or communication, the party through whom the broker or finder makes his or her claim will be responsible for that commission or fee and shall indemnify, defend and hold harmless the other party from and against any liability, cost or damages (including attorneys fees and costs) arising out of that claim.

13. PROFESSIONAL ADVICE.

BUYER and SELLER each acknowledge that the terms and conditions of this Agreement affect the parties' rights and may have tax implications, and that it is therefore advisable to have this Agreement reviewed by such party's legal counsel and/or accountant. Each party is specifically aware that issues such as the form of deed, agency representation, title insurance, liquidated damages, financing, and representations and warranties are complicated and that the parties may require advice that a real estate agent or broker is not qualified or licensed to give and for which each party should contact its own attorney or accountant. Furthermore, each party confirms and agrees that (a) it is not relying on any representations or advice by any real estate agent or broker involved in this transaction, and (b) it has satisfied itself as to the terms and conditions of this sale.

14. ASSIGNMENT, RECORDING AND CONFIDENTIALITY.

This Agreement shall not be assigned or encumbered, or otherwise transferred in any way, by BUYER without the prior written consent of SELLER which may be withheld in SELLER'S sole discretion. The foregoing notwithstanding, in the event BUYER elects to close the purchase of the Property as part of a tax deferred exchange under Section 1031 of the Internal Revenue Code, SELLER agrees to reasonably cooperate with BUYER in that regard, so long as the same does not delay the Closing or cause additional expense or liability to SELLER. This Agreement shall not be recorded in any County Records or other office where public records are maintained nor shall BUYER disclose, prior to Closing, the Purchase Price or other provision of the Agreement or information it discovers about the Property to any third party other than its lender, appraiser, attorney or representative integrally involved in this transaction on behalf of the BUYER, except to the extent required otherwise by any applicable law, ordinance, or regulation.

15. ATTORNEY FEES AND COSTS.

In the event suit or action is instituted to enforce or interpret any of the terms of this Agreement, or of any document required hereby, or to enforce any right arising out of or in any way connected with this Agreement, or any document required hereby, or if BUYER is the subject of any bankruptcy proceedings, the prevailing party shall be entitled to recover from the other party such sum as the court may adjudge reasonable as attorney fees both at trial and on appeal of such suit or action, in addition to all other sums provided by law, including reasonable title insurance company charges or fees and reasonable and necessary fees, and costs, including but not limited to expert witness fees.

16. VALIDITY.

If, for any reason, any clause or provision of this Agreement, or the application of any such clause or provision in a particular situation, circumstance or person, should be held unenforceable, invalid or in violation of law by any court or other tribunal, then the application of such clause or provision in contexts or to situations, circumstances or persons other than that in or to which it is held unenforceable, invalid or in violation of the law shall not be affected thereby, and the remaining clauses and provisions hereof shall nevertheless remain in full force and effect.

17. CONTINUING FORESTLAND OBLIGATIONS.

BUYER acknowledges that the Property may be subject to certain continuing forestland obligations under the forest practices rules adopted pursuant to RCW 76.09.370, including but not limited to the continuing obligations, if any, listed on the notice which is attached hereto as Exhibit C (the "Continuing Obligations"). At or before Closing, BUYER agrees to sign and deliver to SELLER the original of the notice in the form attached hereto as Exhibit C or such other notice that indicates the BUYER'S knowledge of the Continuing Obligations as may be required by the Washington Department of Natural Resources ("DNR") at the time of Closing. At Closing, SELLER shall send the executed notice to DNR in accordance with the requirements of RCW 76.09.390. Upon passage of title, BUYER assumes and agrees to perform the Continuing Obligations at BUYER'S sole cost and expense in a timely fashion, and to indemnify, defend and hold SELLER harmless from and against the Continuing Obligations and any claim, loss, damage, cost or expense resulting from BUYER'S failure to fulfill and perform the same. The provisions of this indemnity shall survive the Closing.

18. CONTINUATION OF NON-AD VALOREM TAX CLASSIFICATION.

The Property or a portion thereof may be presently designated or classified as forestland, timberland, open space or similar non-ad valorem status for property tax purposes. BUYER shall bear the risk that the Property or a portion thereof will be removed from such designation or classification as a result of this transaction. If BUYER'S acquisition of the Property results in a change in the forestland, open space, timberland or similar non-ad valorem tax classification or designation applicable to the Property or any portion thereof, BUYER shall pay at Closing all compensating or "roll back" taxes and related taxes, interest, liability, and penalties resulting from such change in classification or designation (collectively, "Roll Back Taxes and Expenses"), and indemnify, defend and hold SELLER harmless from all such Roll Back Taxes and Expenses. BUYER recognized that if BUYER wished to request a continuance of the forestland or timberland or similar non-ad valorem tax classification or designation of the Property or any portion thereof, then it may be necessary for BUYER to submit the real estate tax affidavit containing such request and a forest management plan to the applicable county assessor's office in advance of the date of Closing. If BUYER wishes to request such a continuance, SELLER agrees to cooperate with BUYER by signing the applicable real estate excise tax affidavit for the transaction prior to Closing, as reasonably requested by BUYER, in order to have BUYER'S continuance request considered in time for Closing by the required date. If a forest management plan is required as a condition to obtaining the continuance of the forestland, timberland or similar non-ad valorem tax designation or classification of the Property or any portion thereof, BUYER shall be solely responsible to prepare and timely submit such plan to the county assessor's office and all costs in connection with the preparation and submittal of such plan shall be at BUYER'S sole expense.

19. MISCELLANEOUS.

This Agreement shall be governed by and interpreted under the laws of the State of Washington. Venue shall be in the county where the Property is located, or at the SELLER'S option, Thurston County, Washington. No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing by all of the parties. In no event shall the Personal Representative of SELLER have any personal liability in connection with this Agreement or transaction contemplated hereunder. The headings and captions in this Agreement are for purposes of reference only and shall not limit or define the meanings thereof. The terms BUYER and SELLER, together with any pronoun used in connection therewith, wherever used in this Agreement shall include the singular and plural and the masculine and feminine, so far as the context may permit or require. This Agreement shall inure to and be binding upon heirs, successors and permitted assigns of the parties hereto, subject to the terms hereof. This Agreement constitutes the entire agreement between the parties pertaining to its subject matter and it supersedes all prior and contemporaneous agreements, representations, and understandings of the parties. No failure of either party to exercise any power given hereunder or to insist upon strict compliance with any obligation specified herein, and no custom or practice at variance with the terms hereof, shall constitute a waiver of either party's right to demand exact compliance with the terms hereof. This Agreement may be executed in several counterparts, each of which shall constitute an executed original hereof.

20. SURVIVAL.

Portions of this Agreement are intended to survive any expiration or termination of this Agreement, the Closing of the transaction contemplated hereby, and/or the execution and delivery of the Deed. Unless otherwise provided herein, all provisions hereof which contemplate performance after any such event shall so survive, as shall all representations and warranties, indemnity obligations, the reciprocal attorneys' fees provision, and the right to exercise remedies set forth in Section 6 above.

21. PUBLICITY.

For the period prior to Closing, and for one year after Closing, neither BUYER nor SELLER shall release any information to the media or the general public concerning BUYER'S purchase of the Property, unless both parties have approved the content thereof, except to the extent required otherwise by any applicable law, ordinance, or regulation.

22. NOTICES.

All notices, requests, demands, and other communications required or permitted to be given under this Agreement shall be in writing and shall be either served (i) personally on the party to whom notice is to be given (in which case such notice shall be deemed to have been duly given on the date of such service), (ii) sent by Federal Express (or other overnight courier service) (in which event notice shall be deemed to have been given on the day of receipt), or (iii) mailed to the party to whom notice is to be given, by first class United States mail, registered or certified, return receipt requested, postage prepaid, and properly addressed as follows (in which case such notice shall be deemed to have been duly given on the third day following the date of such mailing):

TO BUYER:

Pope Resources
19245 Tenth Avenue N.E.
Poulsbo, Washington 98370-7456
Attention: John T. Shea
360-394-0562

With a copy to:
Marco de Sa e Silva
Davis Wright Tremaine LLP
2600 Century Square
1501 Fourth Avenue
Seattle, Washington 98101
206-628-7766

TO SELLER:

Dorothy M. Wack, Personal Representative
Estate of Trena B. Worthington
c/o Ann Forest Burns
Burns & Williams
Lawyers
5508 35th Avenue NE, Suite 102
Seattle, WA 98105
206 527 5942

23. COUNTERPARTS; FACSIMILE SIGNATURES.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original agreement, but all of which together shall constitute one and the same Agreement. The parties authorize each other to deliver such counterpart original agreements by personal delivery, mail, courier service, or telephone facsimile transmission ("fax"). The parties authorized each other to detach and combine original signature pages and fax signature pages and to consolidate them into a single identical original Agreement. Any one such completely executed counterpart shall be sufficient proof of this Agreement.

24. RIGHT OF ENTRY.

The Entry Permit and Indemnity Agreement between BUYER and SELLER (the "Permit") shall be amended as follows: the term of the Permit shall be extended from September 21, 2004, to the date of Closing, expiration, or termination of this Agreement; the "Property" subject to the Permit shall be limited to the Property subject to this Agreement; the Entry Purpose under the Permit to be expanded to include Property marking and survey work relating to the preparation of Forest Practice Applications; and SELLER waives any right to terminate the Permit until the expiration or termination of this Agreement.

25. MUTUAL CONDITION PRECEDENT: COURT APPROVAL.

The obligations of both parties to complete the purchase and sale of the Property under this Agreement are subject to the condition precedent that SELLER shall have obtained the approval of this Agreement by Thurston County Superior Court in the probate of the Estate of Trena B. Worthington, Cause No. 03-4-00350-1, prior to the date of Closing. SELLER'S Personal Representative shall instruct the Estate's probate counsel to bring the approval of terms of sale of the Property under this Agreement before the Court as expeditiously as possible. SELLER'S Personal Representative has been advised by the Estate's probate attorney that the earliest that this matter could be heard by the Court is October 22, 2004. Upon receipt of the Order of the Court approving the terms of the sale, SELLER shall forward a copy of the Order to BUYER and to Thurston County Title Company's escrow department and shall take all further actions necessary to close the sale of the Property.

THIS AGREEMENT is hereby duly executed by BUYER and SELLER on the date written below that party's signature. The date of this Agreement is the date below SELLER'S signature.

SELLER:
ESTATE of TRENA B. WORTHINGTON

by Dorothy M. Wack
its Personal Representative

Date:

BUYER:*
POPE RESOURCES, a Delaware limited partnership, by
Pope MGP, Inc., a Delaware corporation, its General
Partner

by:

its:

Date: September 28, 2004

Exhibits

- A - Legal Descriptions
- B - Special Warranty Deed
- C - Continuing Forestland Obligations

**Burns & Williams
Lawyers**

5508 - 35th Avenue NE
Seattle, WA 98105
206 527 5942

* BUYER'S EXECUTION MUST COMPLY WITH INSTRUCTIONS ATTACHED.

Instructions for Execution of Purchase and Sale Agreement on Behalf of Buyer

A Purchase and Sale Agreement executed by an attorney or agent on behalf of the Buyer shall be accompanied by an authenticated copy of his/her Power of Attorney or other evidence of his/her authority to act on behalf of the Buyer.

If the Buyer is a corporation, the bid must be executed under the corporate seal by some duly authorized officer of the corporation. There shall be attached to the Purchase and Sale Agreement so much of the records of the corporation as will show the official character and authority of the officer signing, duly certified by the secretary or assistant secretary, under the corporate seal, to be true copies.

If the Buyer is a partnership and all partners sign the bid with a notation that there are no other partners, the Estate will not ordinarily require any proof of the existence of the partnership. If all the partners do not sign the Purchase and Sale Agreement, then the names of those partners who have not signed except limited partners must be furnished on the Purchase and Sale Agreement and the Estate, in its sole discretion, may require evidence of the authority of the signer(s) to execute the Purchase and Sale Agreement on behalf of the partnership.

EXHIBIT A

**LEGAL DESCRIPTION OF PROPERTY
(JEFFERSON COUNTY, WASHINGTON)**

BLOCK IV

PARCEL A:

The Northwest 1/4 of the Northwest 1/4 of the Northwest 1/4 of Section 19, Township 27 North, Range 1 East, W.M., in Jefferson County, Washington.

EXCEPT that portion conveyed to Jefferson County for road purposes by deed recorded April 9, 1965, under Auditor's File No. 195646, records of Jefferson County, Washington.

Situate in the County of Jefferson, State of Washington.

PARCEL B:

The North 1/2 of the Northeast 1/4 of the Southeast 1/4 of Section 33, Township 26 North, Range 1 West, W.M., in Jefferson County, Washington.

EXCEPT that portion conveyed to Jefferson County for road purposes by deed recorded April 30, 1973, under Auditor's File No. 217638, records of Jefferson County, Washington.

Situate in the County of Jefferson, State of Washington.

PARCEL C:

The North 1/2 of the Northeast 1/4 of the Southeast 1/4 of the Northwest 1/4 and the Northeast 1/4 of the Southwest 1/4 of the Northwest 1/4 and the Northwest 1/4 of the Southeast 1/4 of the Northwest 1/4 of Section 2, Township 26 North, Range 1 West of the Willamette Meridian.

EXCEPTING THEREFROM that portion if any for right of way of Coyle road.

Situate in the County of Jefferson, State of Washington.

PARCEL D:

The South 1/2 of the Southeast 1/4 of the Southwest 1/4 of Section 10, in Township 26 North, Range 1 West of the Willamette Meridian.

Situate in the County of Jefferson, State of Washington.

PARCEL E:

The West 1/2 of the Southwest 1/4 of Section 11, Township 26 North, Range 1 West of the Willamette Meridian.

Situate in the County of Jefferson, State of Washington.

PARCEL F:

The West 1/2 of the Northwest 1/4 and Government Lot 1 in Section 14, Township 26 North, Range 1 West of the Willamette Meridian.

Situate in the County of Jefferson, State of Washington.

PARCEL G:

Northwest 1/4 of the Southwest 1/4 of Section 14, Township 26 North, Range 1 West of the Willamette Meridian.

Situate in the County of Jefferson, State of Washington.

PARCEL H

The East 1/2 of the Southwest 1/4 of Section 10, Township 27 North, Range 1 West, W.M.

Situate in the County of Jefferson, State of Washington.

PARCEL I:

The North 1/2 of the Northwest 1/4 and the East 1/2 of the Northeast 1/4, EXCEPT that portion known as Coyle Road, Section 15 Township 27 North, Range 1 West, W.M.

Situate in the County of Jefferson, State of Washington.

PARCEL J:

That portion of the East 1/2 of the Southeast 1/4 of Section 17 in Township 28 North, Range 1 West of the Willamette Meridian, lying East of the right of way of the existing Quilcene-Center County Road, known as County Road No. 12; EXCEPT right of way of Dabob Road.

Situate in the County of Jefferson, State of Washington.

PARCEL K:

The Southeast 1/4 of the Northeast 1/4 of Section 4 in Township 29 North, Range 1 West of the Willamette Meridian.

Situate in the County of Jefferson, State of Washington.

PARCEL L:

The East 60 feet of the Northeast 1/4 of the Southwest 1/4, in Section 1, Township 27 North, Range 2 West of the W.M.

Situate in the County of Jefferson, State of Washington.

PARCEL M:

The East 60 feet of the North 1/2 of the Southeast 1/4 of the Southwest 1/4 in Section 1, Township 27 North, Range 2 West of the W.M.

Situate in the County of Jefferson, State of Washington.

PARCEL N:

The North 1/2 of the Southwest 1/4, and the North 1/2 of the South 1/2 of the Southwest 1/4 of Section 1, Township 27 North, Range 2 West of the Willamette Meridian;

Excepting therefrom a strip of land 60 feet wide, running North and South along the entire East line of the above described premises;

Also excepting the right of way of State Road No. 9.

Also excepting therefrom the following described property:

That portion of the North 1/2 of the Southwest 1/4, and the North 1/2 of the South 1/2 of the Southwest 1/4 of Section 1, Township 27 North, Range 2 West, of the Willamette Meridian described as follows: The North 381.23 feet of a 100 feet wide strip lying Southeasterly of and parallel with the Southeast margin of SR 101 as shown on sheet 7 of 8 sheets of the map and profile of State Road No. 9, Jefferson County, Crocker Lake to Quilcene, approved September 28, 1926, records of State of Washington. Department of Highways, Olympia, Washington.

Situate in the County of Jefferson, State of Washington.

PARCEL O:

The West 1/2 of the Southwest 1/4 of the Southwest 1/4 of Section 10, Township 27 North, Range 2 west, W.M.,

Situate in the County of Jefferson, State of Washington.

PARCEL P:

The Southeast 1/4 of the Southwest 1/4 of Section 10, Township 27 North, Range 2 West of the Willamette Meridian.

Situate in the County of Jefferson, State of Washington.

PARCEL Q:

The Northeast 1/4 of the Northwest 1/4 of Section 15, Township 27 North, Range 2 West of the Willamette Meridian.

Situate in the County of Jefferson, State of Washington.

PARCEL S:

The South 1/2 of the Southeast 1/4, EXCEPT that portion lying East of Lords Lake Loop Road in Section 21, Township 28 North, Range 2 West, W.M.

Situate in the County of Jefferson, State of Washington.

PARCEL T:

South 1/2 of the Northeast 1/4, and the North 1/2 of the Southeast 1/4. All in Section 21, Township 28 North, Range 2 West, W.M.

Situate in the County of Jefferson, State of Washington.

PARCEL U:

South 3/4 of the North 1/2 of the Northeast 1/4 of Section 21, Township 28 North, Range 2 West, W.M.

Situate in the County of Jefferson, State of Washington.

PARCEL V:

The Southwest 1/4 of the Southeast 1/4 of Section 22, Township 28 North, Range 2 West of the Willamette Meridian.

Situate in the County of Jefferson, State of Washington.

PARCEL W:

West 1/2 of Northwest 1/4 EXCEPT Lords Lake Road of Section 22, Township 28 North, Range 2 West, W.M.

Situate in the County of Jefferson, State of Washington.

BLOCK V

PARCEL R:

All that portion of the West 1/2 of the Southwest 1/4 of Section 13, Township 27 North, Range 2 West W.M., lying West of State Road No. 9, now known as Highway 101.

EXCEPT right of way for ditch of Quilcene, Irrigation Company, as per Resolution filed November 6, 1917 under Jefferson County Commissioners proceedings recorded in Volume J, pages 228 through 230.

ALSO EXCEPTING the following described property; Commencing at a point 990 feet North of the Southeast corner of the Southwest 1/4 of the Southwest 1/4 of Section 13, Township 27 North, Range 2 West; thence North 5 chains; thence West 10 chains; thence South 5 chains and thence East 10 chains to place of beginning, in Section 13, Township 27 North, Range 2 West.

ALSO EXCEPTING the following described property; Beginning at a point on the West line of the Northwest 1/4 of the Southwest 1/4 of Section 13, Township 27 North, Range 2 West, W.M., 40 feet South of the Northwest corner of said forty acre tract; thence South 208 feet; thence East 416 feet; thence North 208 feet to a point 40 feet South of the North line of said forty acre tract; thence West 416 feet to the place of beginning.

ALSO EXCEPT the following described property: Part of the Northwest 1/4 of the Southwest 1/4 of Section 13, Township 27 North, Range 2 West, W.M., described as follows:

Beginning at a point 30 feet North and 30 feet West of the Southeast corner of the Northwest 1/4 of the Southwest 1/4 of said Section 13; thence West 630 feet; thence north 415 feet; thence East 610 feet, more or less, to the Southwesterly right of way line of the Olympic Highway; thence Southwesterly along said right of way line to a point 30 feet West of the East line of the Southwest 1/4 of the Northwest 1/4 of said Section 13; thence South 390 feet, more or less, to the place of beginning.

ALSO EXCEPT the following described property: Beginning at the Northeast corner of the Southwest 1/4 of the Southwest 1/4 of Section 13 in Township 27 North, Range 2 West of the Willamette Meridian; thence West 690 feet to the TRUE POINT OF BEGINNING; thence continuing West 417 feet and 4 inches; thence South 213 feet and 8 inches; thence East 417 feet and 4 inches; thence North 213 feet and 8 inches to the TRUE POINT OF BEGINNING; EXCEPTING THEREFROM the Northerly 5 feet now used for drainage purposes.

ALSO EXCEPT the following described property: Beginning at a point on the West line of the Northwest 1/4 of the Southwest 1/4 of Section 13, Township 27 North, Range 2 West, W.M., 40 feet South of the Northwest corner of said forty-acre tract; thence South 208 feet to mark the place of beginning; thence proceeding South 276 feet; thence East 158 feet; thence North 276 feet; thence West 158 feet to the point of beginning.

ALSO EXCEPT the following described property: A tract of land located in the Northwest 1/4 of the Southwest 1/4 of Section 13, Township 27 North, Range 2 West, W.M. in Jefferson County, Washington; From the alleged location of the 1/4 corner between Sections 13 and 14 (said corner being in the Quilcene Cemetery Road) thence South 15.0 feet to a 10 inch fence corner post; thence South 22.0 feet and South 89 1/2° East 411.3 feet to a point on the South edge of the right of way of the Quilcene Cemetery Road, which point is the Northwest corner of the tract of land herein described; From said Northwest corner South 89 1/2° East 168.5 feet along the Cemetery Road boundary to it's intersection with the boundary of the Olympic Highway; thence South 40° East 146.0 feet along said highway boundary; thence South 50° West 150.0 feet; thence North 89 1/2° West 150.9 feet; and finally North 01° East 208.2 feet to the Northwest corner of the tract.

ALSO EXCEPT the following described property; That portion of the Northwest 1/4 of the Southwest 1/4 of Section 13, Township 27 North, Range 2 West of the Willamette Meridian, described as follows, to-wit; beginning at the Northeast corner of the Northwest 1/4 of the Southwest 1/4 of said Section 13; thence South along the East boundary line of said tract a distance of 889.5 feet; thence South 87° 36' West 54.6 feet to a point on the Southwesterly boundary line of the right of way of State Road No. 9, said point being the TRUE POINT OF BEGINNING; thence North 40° 42' West along the boundary line of said road, 220.0 feet; thence South 76° 02' West, 216.0 feet; thence South 0° 55' East, 129.3 feet; thence North 87° 36' East, 351.4 feet, to the point of beginning.

ALSO EXCEPT the following described property; Beginning at the Northwest corner of the Southwest 1/4 of the Southwest 1/4 of Section 13, Township 27 North, Range 2 West, W.M.; thence North along the West boundary of said Section 13, 467 feet; thence East 241 feet; thence South 675 feet; thence East 128 feet; thence South 320 feet; thence West 369 feet, and thence North along the West boundary of said Section 13, 528 feet to the point of beginning.

ALSO EXCEPT the following described property; Commencing at a point 990 feet North of the Southeast Corner of the Southwest 1/4 of the Southwest 1/4, Section 13, Township 27 North, Range 2 West, W.M.; thence West 417.42 feet; thence South 208.71 feet; thence East 417.42 feet; thence North 208.71 feet to place of beginning.

ALSO EXCEPT the following described property; All that portion of the Northwest 1/4 of the Southwest 1/4 of Section 13, Township 27 North, Range 2 West, W.M., lying within an area described as follows:

Beginning at the Northwest corner of the aforesaid Northwest 1/4 of Southwest 1/4, Section 13 which is the alleged location of 1/4 corner between Sections 13 and 24 (said corner being in Quilcene Cemetery Road) thence South 15 feet to a 10 inch fence corner post; thence South 22 feet to South edge of right of way of Quilcene Cemetery Road; thence South 89 1/2° East 579.8 feet along South edge of said road to intersection with Southerly edge of Olympic Highway right of way; thence South 40° East 146 feet along said highway boundary to a point which is the most Easterly corner of Tax #63; thence continuing South 40° East 150 feet; thence South 68° West 673 feet to Southeast corner of Tax #62; thence West along South boundary of Tax #62 to West line of Northwest 1/4 Southwest 1/4 Section 13; thence North along West boundary of the Northwest 1/4 of the Southwest; 1/4, Section 13 to point of beginning;

EXCEPT those certain Tax numbers 57, 62, and 63 in said Northwest 1/4 of Southwest 1/4, Section 13 as recorded in office of Jefferson County Auditor in Volume 112, page 456; Volume 109, page 255; and Volume 118, page 345 respectively; and EXCEPT right of way for ditch of Quilcene Irrigation Company.

ALSO EXCEPT the following described property; Beginning at the Northeast corner of the Northwest 1/4 of the Southwest 1/4, Section 13, Township 27 North, Range 2 West, W.M.; thence Southerly along its East boundary 889.5 feet; thence South 87° 36' West 54.6 feet to a point on the Southwest side of Olympic Highway right of way which is the Southeast corner of Tax #65 as described in deed to George T. and Ora Richardson, husband and wife as recorded in Volume 119, page 271 of DEEDS of Jefferson County Auditor, thence North 40° 42' West 220 feet along the boundary of Olympic Highway; thence South 76° 02' West 216 feet to the Northwest corner of Tax #65, the point of BEGINNINGS OF THIS DESCRIPTION, thence South 01° West 130.4 feet along the West boundary of Tax #65 to its Southwest corner which is on the North boundary of Tax #60 as described in deed to John E. Kruse as recorded in Volume 115, page 489 of DEEDS of Jefferson County Auditor, thence South 89° 30' West 237.7 feet more or less along said North boundary of Tax #60 to its Northwest corner, thence North 00° 32' East 75.8 feet more or less along the West boundary of said Tax #60 extended to a point which lies South 76° 40' West of point of beginning of this description and being on the North boundary of Tax #65 extended, thence North 76° 40' East 246.0 feet more or less to the point of beginning.

ALSO EXCEPT that portion of conveyed to Jefferson County for Columbia Street as per Quit Claim Deed recorded August 23, 1948 under Jefferson County Auditor's File No. 114866.

All situate in the County of Jefferson, State of Washington.

PARCEL X:

The North 495 feet of the Southeast 1/4 of the Northwest 1/4 of Section 33, Township 30 North, Range 2 West of the Willamette Meridian, EXCEPT 20 feet on the West side of said tract reserved for right of way; ALSO EXCEPT the right of way for old Gardiner Road as conveyed July 3, 1935 under Jefferson County Auditor's File No. 74367.

TOGETHER WITH all that part of the East 792 feet of the Southwest 1/4 of the Northeast 1/4 of Section 33, in Township 30 North, Range 2 West of the Willamette Meridian, which lies South of the right of way of the existing Olympic Highway, and North of the right of way granted for a re-location of said Highway as per Warranty Deed recorded January 23, 1947 under Jefferson County Auditor's File No. 109311, along the South line of said forty-acre tract; EXCEPTING THEREFROM that portion granted to the State of Washington for Primary State Highway No. 9.

Situate in the County of Jefferson, State of Washington.

EXHIBIT B

FORM OF SPECIAL WARRANTY DEED

SPECIAL WARRANTY DEED

The Grantor, Estate of Trena B. Worthington, deceased (for good and valuable consideration in hand paid, the receipt and sufficiency of which are hereby acknowledged) (for and in consideration of "I.R.C. Section 1031 Tax-Deferred Exchange of Like-Kind Real Property"), grants, bargains, sells, conveys and confirms to POPE RESOURCES, a Delaware limited partnership, the following described real estate, situated in the County of Jefferson, State of Washington.

The real property described on Exhibit A attached hereto and incorporated herein by this reference,

SUBJECT TO the exceptions, encumbrances and matters described on Exhibit B attached hereto and incorporated herein by this reference.

The Grantor for itself and its successors-in-interest does by the presents expressly limit the covenants of this Deed to those herein expressed, and excludes all covenants arising or to arise by statutory or other implication, and does hereby covenant that Grantor will forever warrant and defend the said described real estate against all persons whomsoever claiming or to claim by, through, or under said Grantor and not otherwise.

DATED as of _____, 2004.

ESTATE OF TRENA B. WORTHINGTON

By: Dorothy M. Wack
Personal Representative

STATE OF WASHINGTON)
) ss.
COUNTY OF KING)

I, _____, Notary Public in and for the State of Washington, do hereby certify that on this _____ day of _____, 2004 personally appeared before me Dorothy M. Wack to me known to be the Personal Representative of the Estate of Trena B. Worthington described in and who executed the within instrument and acknowledged that she signed the same as her free and voluntary act and deed for the uses and purposes herein mentioned and on oath stated that she was authorized to execute the said instrument as Personal Representative of the Estate.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

NOTARY PUBLIC in and for the State of Washington,
residing at _____
My appointment expires _____

Print Name _____

EXHIBIT C

CONTINUING FOREST LAND OBLIGATIONS

Washington State Department of Natural Resources
Notice of Continuing Forest Land Obligation

Sellers and buyers of land and perpetual timber rights have certain rights and responsibilities when the land or perpetual timber rights are sold or transferred. Where the land is subject to certain continuing forestland obligations including without limitation Reforestation, Road Maintenance and Abandonment Plans and Harvest Strategies along Type 4 Waters in Eastern Washington, prior to the sale or transfer of the land or perpetual timber rights the law requires that the following occur: 1) the seller shall notify the buyer of the existence and nature of the obligation and 2) the buyer shall sign a Notice of Continuing Forestland Obligation Form indicating the buyer's knowledge of such obligation. At the time of sale or transfer of the land or perpetual timber rights the seller shall send the signed Form to the Department of Natural Resources (DNR). The Form may be obtained from your DNR region office.

If the seller fails to notify the buyer about the continuing forest land obligation referenced above, the seller shall pay the buyer's costs related to such continuing forest land obligation, (including all legal costs) incurred by the buyer in enforcing the continuing forestland obligation against the seller. Failure by the seller to send the required notice to the DNR at the time of sale shall be prima facie evidence in all action by the buyer against the seller for costs related to continuing forest land obligation, that the seller did not notify the buyer of the continuing forest land obligation prior to sale. See RCW 73.09.070, RCW 76.09.390 and WAC 222-20-055.

There are also other types of continuing forestland obligations subject to certain requirements, including without limitation Small Forest Landowner Forest Riparian Easements and Landowner Landscape Plans. For more information contact the DNR Regional Office.

CONTINUING OBLIGATIONS

Reforestation (RCW 76.09.070)

- Obligation exists on the property identified above and relates to the following Forest Practice Application/Notification (FPA/N) Numbers (list all that apply, and attachment if necessary):
- No Reforestation obligation exists on the property.

Road maintenance and Abandonment Plan (WAC 222-24-051)

- Obligation exists on the property identified above and relates to the following Forest Practice Application/Notification (FPA/N) Numbers (list all that apply, and attachment if necessary):
- No Road Plan obligation exists on the property.

Harvest Strategy along Type 4 Waters in Eastern Washington (WAC 222-30-022 (2)(b))

- N/A Obligation exists on the property identified above and relates to the following Forest Practice Application/Notification (FPA/N) Numbers (list all that apply, and attachment if necessary):
- N/A No Harvest Strategy obligation exists on the property.

PROPERTY IDENTIFICATION

Land/Rights Sold/Transferred (circle one): *Land and Timber* *Land* *Perpetual Timber Rights*

Date that the Land/Rights was/were Sold/Transferred (month/day/year): _____ .

County/ies: _____

DNR Region/s: _____

Legal Description of the Lands/Rights being Sold/Transferred (including county parcel number/s, add attachment if necessary): _____

SELLER:
Signature: _____
Date: _____
Print Name: _____
Title: _____
Address: _____
Phone: _____

BUYER:
Signature: _____
Date: _____
Print Name: _____
Title: _____
Address: _____
Phone: _____

NOTE TO SELLER

At the time of sale or transfer of the property or the perpetual timber rights:

The seller is responsible for delivering (by certified mail or in person) the SIGNED ORIGINAL to the DNR Region Office in which the property is located. However, if you choose to also have this form recorded by the county, the original is delivered to the county and a copy delivered (by certified mail or in person) to the DNR Region Office.

MANAGEMENT AGREEMENT

MANAGEMENT AGREEMENT ("Agreement"), dated as of December 31, 2004, by and between Cascade Timberlands LLC, a Delaware limited liability company ("Company"), and Olympic Resource Management LLC, a Washington limited liability company ("Manager").

RECITALS

- A. Crown Pacific Limited Partnership ("CPLP") will transfer the tree farms ("Tree Farms") referred to, respectively, as the Olympic Tree Farm ("Olympic Tree Farm"), Hamilton Tree Farm ("Hamilton Tree Farm") and Oregon Tree Farm ("Oregon Tree Farm") in Exhibit A, and related assets, to the Company and its wholly owned subsidiaries ("Subsidiaries") on the effective date of CPLP's Second Amended Joint Consolidating Chapter 11 Plan, dated as of November 10, 2004 ("Plan" and the date the Plan become effective, the "Effective Date").
- B. Before the date of this Agreement, the Manager provided certain services relating to the Tree Farms under an Engagement Agreement between the Manager, Debevoise & Plimpton LLP and Moore & Van Allen PLLC dated May 13, 2004, as amended ("Interim Agreement").
- C. The Company's Amended and Restated Limited Liability Company Agreement, dated as of the date of this Agreement ("Company LLC Agreement"), contemplates that the Company's board of directors ("Company Board") will delegate the Company's and its Subsidiaries' day-to-day operations to a manager.
- D. The Company wishes to have the Manager provide, and the Manager wishes to provide, certain management services to the Company and its Subsidiaries from the date of this Agreement, with the Manager acting as the manager contemplated by the Company LLC Agreement.
- E. The Company and the Manager wish to state the terms under which the Manager will provide these services.

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

1. Services

1.1 Services. Subject to the terms and conditions in this Agreement, the Company hereby hires the Manager to provide the following services to the Company and its Subsidiaries ("Services") and the Manager agrees to provide the Services.

(a) Annual Budgets. At least two months before the start of each fiscal year (or, in the case of the 2005 fiscal year, within 30 days after the Effective Date), the Manager shall submit to the Company Board, for its approval, an annual budget (set forth on a monthly basis) for each Subsidiary for the forthcoming fiscal year, together with projected quarterly and annual cash flow statements and projected balance sheets for the end of each fiscal quarter of each fiscal year ("Annual Budget"). Each Annual Budget shall be based on the Manager's recommendations, together with any information supplied by the Company, about target levels of income and expenditures and shall reflect the work to be performed, the income to be received and the expenses to be incurred with respect to the relevant Tree Farm during that fiscal year (including the Manager's Reimbursable Costs under Section 2.3). The parties shall assist each other in good faith (including providing information) to finalize the Annual Budgets in a timely manner with the intention of obtaining the approval of the Annual Budgets by the Company Board before the start of the fiscal year to which they relate (or, in the case of the 2005 Annual Budgets, within 60 days after the Effective Date). If no Annual Budget is approved for a fiscal year, the Annual Budget for the immediately preceding fiscal year applies.

(b) Complying with Annual Budgets. After the Company Board has approved an Annual Budget, the Manager may spend the approved budgeted amounts for each Tree Farm and the Company during the relevant fiscal year in consultation with, and with the concurrence of, the Company's President ("President") but without requiring further approval by the Company Board. However, the Company Board may modify the Annual Budget at any time (except for the Management Fees) and, to the extent the Manager has not yet incurred expenses or obligations, the Manager shall comply with such modifications. To facilitate ongoing management of the Tree Farms, the Manager may exceed any approved budgeted line item amount by the lesser of 10% or \$25,000 (although the aggregate variances for expenditures may not exceed 5% of the aggregate budgeted expenditures in the Annual Budget). In addition, if an emergency or natural disaster threatens the value or well-being of all or some of any Tree Farms, the Manager shall use commercially reasonable efforts to protect the Tree Farms, and may spend up to \$100,000 per Tree Farm in extra-budgetary funds for this purpose in consultation with, and with the concurrence of, the President but without obtaining the prior approval of the Company Board. The Manager shall notify the Company immediately (and in advance, if practicable) of any such emergency or natural disaster, and the amount of and reason for any such expenditure or proposed expenditure. If the Manager believes it needs to spend more than \$100,000 in such circumstances, it shall promptly inform the Company and obtain the President's approval before spending more than \$100,000.

(c) Financial Books and Records. The Manager shall keep full and accurate accounts of the Company's and each Subsidiary's transactions in proper books and records of account which set forth the information required by the Delaware Limited Liability Company Act. These books and records shall be maintained in accordance with US generally accepted accounting principles ("GAAP"). Promptly after entering into this Agreement, the Manager and the Company will consult with each other on developing reporting format templates.

(d) Monthly Reports. Within 10 Business Days after the end of each calendar month, the Manager shall give the Company, in respect of each Subsidiary and in respect of the Company (on a consolidated basis):

- (i) an income statement for that calendar month;
- (ii) an analysis of the variances, if any, in the income statement from the relevant monthly budget in the Annual Budget where the variance (whether favorable or unfavorable) is at least 5% of the budgeted amount for that line item and the budgeted line item was an expenditure of at least \$1,000;
- (iii) a trial balance showing assets and liabilities as of the end of that calendar month;
- (iv) a balance sheet showing assets and liabilities as of the end of that calendar month;
- (v) a statement of cash flows during that calendar month;
- (vi) a projection of monthly cash flows for the three calendar months immediately following that calendar month; and
- (vii) such other ordinary course financial reports as the Company Board requires.

The Manager shall prepare these statements and reports in accordance with GAAP and in a form approved by the Company in its reasonable discretion and shall deliver them to the President (and/or the President's designees) in both electronic and paper forms.

(e) Quarterly Reports. Within 20 Business Days after the end of each first, second and third fiscal quarter of each fiscal year, the Manager shall give the Company, in respect of each Subsidiary and, except for Section 1.1(e)(viii), in respect of the Company (on a consolidated basis):

- (i) an income statement for that fiscal quarter;
- (ii) an analysis of the variances, if any, in the income statement from the relevant quarterly budget in the Annual Budget where the variance (whether favorable or unfavorable) is at least 5% of the budgeted amount for that line item and the budgeted line item was an expenditure of at least \$3,000;

- (iii) a statement of cash flows during that fiscal quarter;
- (iv) an analysis of the variances, if any, in the cash flow statement from the relevant quarterly budget in the Annual Budget where the variance (whether favorable or unfavorable) is at least 5% of the budgeted amount for that line item and the budgeted line item was a payment of at least \$3,000;
- (v) a trial balance showing assets and liabilities as of the end of that fiscal quarter;
- (vi) a balance sheet showing assets and liabilities as of the end of that fiscal quarter;
- (vii) an analysis of the variances, if any, in the balance sheet from the relevant quarterly budget in the Annual Budget where the variance (whether favorable or unfavorable) is at least 5% of the budgeted amount for that line item and the budgeted line item was at least \$100,000;
- (viii) at the Company's request, a revised Annual Budget for any or all of the Subsidiaries ("Forward Looking Budgets") for the remaining fiscal quarters of the fiscal year based on actual revenues and expenditures for the fiscal year to date and revised forecasts of revenues and expenditures for the balance of the fiscal year (and, once approved by the Company Board, any Forward Looking Budgets shall replace the corresponding original Annual Budgets for the balance of the fiscal year); and
- (ix) such other ordinary course financial reports as the Company Board requires.

The Manager shall prepare these statements, reports and Forward Looking Budgets in accordance with GAAP and in a form approved by the Company in its reasonable discretion and shall deliver them to the President (and/or the President's designees) in both electronic and paper forms. The Manager shall arrange for the Company's and each Subsidiary's books and records of account to be reviewed as of the end of each fiscal quarter by the Company's auditors (or other accounting firm selected by the Company).

(f) Annual Reports. Within two months after the end of each fiscal year, the Manager shall give the Company, in respect of each Subsidiary and, except for Section 1.1(f)(ii), in respect of the Company (on a consolidated basis):

- (i) an income statements for that fiscal year;
- (ii) an analysis of the variances, if any, in each Subsidiary's income statement from the annual budget in the Annual Budget where the variance (whether favorable or unfavorable) is at least 5% of the budgeted amount for that line item and the budgeted line item was an expenditure of at least \$12,000;
- (iii) a statement of cash flows during that fiscal year;
- (iv) an analysis of the variances, if any, in the cash flow statement from the annual budget in the Annual Budget where the variance (whether favorable or unfavorable) is at least 5% of the budgeted amount for that line item and the budgeted line item was a payment of at least \$12,000;
- (v) a trial balance showing assets and liabilities as of the end of that fiscal year;
- (vi) a balance sheet showing assets and liabilities as of the end of that fiscal year;
- (vii) an analysis of the variances, if any, in the balance sheet from the annual budget in the Annual Budget where the variance (whether favorable or unfavorable) is at least 5% of the budgeted amount for that line item and the budgeted line item was at least \$100,000; and
- (viii) such other ordinary course financial reports as the Company requests.

The Manager shall prepare these statements and reports in accordance with GAAP and in a form approved by the Company in its reasonable discretion and shall deliver them to the President (and/or the President's designees) in both electronic and paper forms. The Manager shall arrange for the Company's and each Subsidiary's books and records of account to be audited as of the end of each fiscal year by the Company's auditors (or other accounting firm selected by the Company), such audits to be completed within two months of the end of the fiscal year. If requested by the Company, the Manager shall prepare an annual internal control report that complies with the requirements of section 404 of the Sarbanes-Oxley Act of 2002 (and the rules promulgated under it) as if the Company were an issuer to which such requirements applied (and the Manager may contract for Subcontract Services at the Company's cost to prepare such report and to document and/or test internal controls as required to prepare such report). An officer of the Manager shall certify in writing for the audited income statements, cash flow statements and balance sheets that:

- (A) he or she has reviewed these financial statements;
- (B) based on his or her knowledge, these financial statements do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make such statements in the financial statements, in light of the circumstances under which such statements in the financial statements were made, not misleading with respect to the period covered by the financial statements; and
- (C) based on his or her knowledge, the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Subsidiary or Company (on a consolidated basis) as of, and for, the periods presented in the financial statements.

(g) Reports to Members. If requested by the Company, the Manager shall send to each of the Company's members ("Members"), either by mail or by any other means agreed between the Manager and the Company, any or all of the Company's consolidated income statement, cash flow statement and balance sheet and a statement of the percentage of interests held by each Member as of the date of the financial statements. After consultation with, and with the concurrence of, the President, the Manager shall use commercially reasonable efforts to provide to a Member such other information as is reasonably requested by such Member for any purpose reasonably related to such Member's interest as a member of the Company to the extent that any such efforts do not impose any undue cost or burden on the Company or the Manager, subject in each case to the Member's obligations concerning the disclosure of confidential information under the Company LLC Agreement.

(h) Taxes Records, Tax Returns and Tax Payments. Subject to any reasonable instructions from the Company that are not inconsistent with applicable law or regulations, the Manager shall:

- (i) manage the Company's tax records;
- (ii) prepare and execute the Company's tax returns on the Company's behalf;
- (iii) ensure that the taxes due from the Company are paid on time from the Company's bank accounts;
- (iv) as soon as reasonably practicable after the end of each fiscal year, send to each person that was a Member at any time during such fiscal year U.S. Internal Revenue Service Schedule K-1, "Partner's Share of Income, Credits, Deductions, Etc.," or any successor schedule or form, for such Member; and

- (v) coordinate with any other person providing tax services to the Company.

The Company shall promptly give the Manager copies of any tax statements sent directly to the Company with regard to the Company's taxes that the Manager would require to perform its duties under this Section 1.1(h).

(i) Tax Allocations and other Tax Matters. Subject to any reasonable instructions from the Company Board not inconsistent with applicable law or regulations, the Manager shall:

- (i) except as otherwise provided in the Company LLC Agreement, allocate the income, gains, losses, credits and deductions recognized by the Company among the Members for U.S. federal, state and local income tax purposes, to the extent permitted under the U.S. Internal Revenue Code ("Code") and the Treasury Regulations, in proportion to Members' respective interests in the Company;
- (ii) notwithstanding Section 1.1(i)(i), on a best efforts basis adjust such allocations as may be necessary to maintain substantial economic effect, or to ensure that such allocations are in accordance with the Members' interests in the Company, in each case within the meaning of the Code and the Treasury Regulations;
- (iii) allocate tax credits in good faith; and
- (iv) determine in good faith all matters concerning allocations for U.S. federal, state and local and non-U.S. income tax purposes, including accounting procedures, not expressly provided for by the terms of this Agreement.

The Manager shall not cause the Company to elect to be treated as an association taxable as a corporation for U.S. federal, state or local income tax purposes under Treasury Regulations section 301.7701-3(a) or under any corresponding provision of state or local law.

(j) Cash Management. The Manager will collect and hold cash generated from the Tree Farms in a bank account or accounts opened in the Company's or the applicable Subsidiary's name. The Manager shall pay the Company's and each Subsidiary's accounts payable and all property related expenses out of such accounts. The Manager shall deliver copies of the Company's and Subsidiaries' bank statements to the President, together with a reconciliation prepared by the Manager, within 10 Business Days after the Manager receives those statements.

(k) Administering Distributions. At the Company's request, the Manager shall assist the Company in making distributions of the Company's cash or other assets to the Members (including facilitating the transfer of the Company's cash or other assets to Members or to other Company bank accounts, and sending notices or information to Members).

(l) Insurance and Bonding. The Manager shall maintain in full force and effect, at the Manager's cost, at least the following minimum levels of insurance and fidelity bonds with financially stable insurance carriers rated by A.M. Best "A-VI" or higher:

- (i) Minimum limits of \$1,000,000 per occurrence, \$2,000,000 aggregate for ongoing operations, Washington Stop Gap (employer's liability), and loggers broad form property damage. Insurance coverage will be written on an insurance industry standard Commercial General Liability Insurance Policy (ISO CG 00 01 or equivalent).
- (ii) Minimum automobile liability coverage of \$1,000,000 each accident, and coverage will use Symbol 1 (Any Auto), or a combination of Symbols 2, 8, and 9 (Owned, Non-Owned, and Hired Autos). Insurance coverage will be written on an industry standard Business Auto Coverage policy (BA 00 01 or equivalent).
- (iii) Workers' Compensation Liability coverages required by law and Employer's Liability Insurance in the amount of \$1,000,000. If commercially available, these policies shall contain a provision under which the insurer waives any right of subrogation as against the Company and the Subsidiaries, and its employees, agents or other representatives, to the fullest extent allowed by law.
- (iv) Umbrella or Excess Liability Insurance which will provide additional limits of coverage over the Commercial General Liability, Employer's Liability, and Business Auto Coverage in an amount of no less than \$4,000,000.
- (v) Fidelity bond, covering the Manager and the Manager's employees and agents who handle or who are responsible for handling the Company's and the Subsidiaries' monies, reasonably acceptable to the Company, in the amount of \$500,000.
- (vi) Professional Liability Coverage with a limit not less than \$1,000,000.

The Manager shall cause the Company and its Subsidiaries to be added as additional insureds to the above insurance policies (except the Professional Liability Coverage) per endorsement CG 2010 3/97 or equivalent. Before the Manager commences any activities under this Agreement, it shall give the Company certificates of insurance (including the additional insured endorsement), in a form acceptable to the Company, evidencing the above insurance policies.

The above insurance policies will be primary to any insurance of the Company and its Subsidiaries. At the Company's request, the Manager will place any insurance of the Company and any of its Subsidiaries, at the cost of the Company or Subsidiary, and give the Company certificates of insurance in a form acceptable to the Company, evidencing such insurance policies.

The Manager shall require and make reasonable efforts to verify that each contractor and subcontractor the Manager hires to perform any work relating to the Company or any Subsidiary acquire and maintain in full force and effect, at the contractor's or subcontractor's cost, at least the following minimum levels of insurance with financially stable insurance carriers reasonably satisfactory to the Company (except that the Manager may waive such insurance requirements, in whole or in part, in emergency situations for the period of the emergency, and shall promptly notify the Company of any such waivers):

- (A) Commercial general liability insurance insuring the contractor or subcontractor, as the case may be, and the Company and the Subsidiaries against liability for bodily injury or property damage claimed to have resulted from or be in any way connected with the contractor's or subcontractor's operations in connection with this Agreement, in the amount of \$1,000,000 for each occurrence and \$2,000,000 general aggregate.
- (B) Automobile liability insurance, including coverage for scheduled autos, hired autos and non-owned autos, insuring the contractor or subcontractor, as the case may be, and the Company and the Subsidiaries against any liability for bodily injury or property damage claimed to have resulted from or be in any way connected with the contractor's or subcontractor's operations in connection with this Agreement, in the amount of \$1,000,000 for bodily injury per accident and \$1,000,000 for property damage.
- (C) Workers' Compensation Liability coverages required by law and Employer's Liability Insurance in the amount of \$1,000,000. These policies shall contain a provision under which the insurer waives any right of subrogation as against the Company and the Subsidiaries, and its employees, agents or other representatives, to the fullest extent allowed by law.

The insurance coverages and bonds required under this Section 1.1(l) shall contain a provision that they are not subject to change or cancellation without at least 30 days' prior written notice by the insurer to the Company. The Manager shall give the Company evidence satisfactory to the Company that the Manager, contractor or subcontractor, as the case may be, is maintaining such insurance coverages and bonds. These insurance coverages and bonds are minimum requirements and do not limit the Manager's liability under this Agreement.

(m) Lease and Contractual Obligations. The Company shall timely give the Manager pertinent information regarding lease and contractual agreements on each Tree Farm or otherwise relating to the Company or the Subsidiaries. The Manager shall ensure that lease or other contractual payments required to be made on the Company's or a Subsidiary's behalf (including any payments required under contracts or other commitments entered into by the Manager on the Company's or a Subsidiary's behalf in accordance with Section 1.7 and including rent payments for offices leased by the Company or any Subsidiary) are made on time out of the funds in the Company's or applicable Subsidiary's bank accounts. The Manager shall give the Company proposed credit guidelines for vendors to the Company and the Subsidiaries and shall administer these guidelines following Company approval.

(n) Licenses. The Manager shall obtain and maintain for the Company (at the Company's cost) and the Subsidiaries any licenses, permits or other governmental authorities ("Licenses") that the Company or any Subsidiary needs in connection with its business or operating activities.

(o) Assets. The Manager shall have possession and control of the Company's and the Subsidiaries' owned or leased assets. Furthermore:

- (i) Subject to any instructions from the Company, the Manager shall arrange for and shall oversee the proposed upgrade to the Tree Farms inventory scheduled for 2004-2005 (Stand Classification Cruise – High Plot Intensity as described in the Manager's "NewCo Inventory Proposal" dated August 25, 2004). Following the completion of the 2004-2005 Stand Classification Cruise, the Manager shall oversee annual reinventory cruising. For 2006 and subsequent years, the Manager and the President will jointly determine the recommended annual cruising target for each Tree Farm and will use the results of the 2004-2005 re-cruise to establish the annual re-inventory acreage parameters.
- (ii) The Manager shall give the Company, by July 31 of each year and January 31 of the following year, semi-annual cutout reports of timber harvested from each Tree Farm harvest unit compared to the inventory estimates of the volume on each Tree Farm harvest unit.

(iii) The Manager shall fully support any third party appraisers conducting initial or updated annual appraisals for each Tree Farm. The Manager shall supply the appraiser with merchantable inventory information for each Tree Farm by age, species group, and product class, premerchantable acreage by age class, and number and types of acreage comprising each Tree Farm. When requested by the Company, the Manager shall give the Company feedback and critiques of the third-party appraisals.

(p) Capital Expenditure. The Manager shall disburse funds from the Company's or applicable Subsidiary's bank account for capital expenditures for silviculture and roads in accordance with the capital expenditure policies and procedures approved by the Company and the amounts for capital expenditure approved in the Annual Budget (subject to any variances permitted under Section 1.1(b))

(q) Establishing Offices. At the Company's cost, the Manager shall establish and maintain offices or other support facilities required for the efficient management of each Tree Farm.

(r) Harvest Plan. At least two months before the start of each fiscal year (or, in the case of the 2005 fiscal year, within 30 days after the Effective Date), the Manager shall submit to the Company, for its approval, the recommended monthly harvest plan for each Tree Farm for that fiscal year and, once approved by the Company, cause timber to be harvested from each Tree Farm in accordance with the plan. On or before the end of the first month in the following fiscal year, the Manager shall give the Company a monthly analysis of harvest results versus the harvest plan for the fiscal year just completed. The Manager may recommend, for the Company's approval, changes to the harvest plan if market conditions or other operating conditions change.

(s) Road Construction and Maintenance. The Manager shall be responsible for oversight of road construction and maintenance reasonably required in connection with the Tree Farms (including activities required under Washington State's Road Maintenance and Abandonment Planning rules).

(t) Silvicultural Activities. The Manager shall be responsible for oversight of ongoing silvicultural operations and, at the Company's request, shall identify backlogs and recommend corrective actions for any backlogs.

(u) GIS Data Development and Maintenance. The Manager shall develop and maintain GIS data for the Tree Farms.

(v) Security and Surveillance. The Manager shall exercise reasonable efforts to maintain the security of the Tree Farms, including conducting regular surveillance of the Tree Farms to detect weather damage, fire damage, insect infestation and disease, timber trespass or any other detrimental occurrences.

(w) Timber or Log Marketing. Subject to any instructions from the President, the Manager shall:

- (i) oversee any mill supply agreements;
- (ii) determine the volume of the logs to be sold and manner of sale;
- (iii) advertise sales;
- (iv) process and handle bids;
- (v) ensure contract compliance;
- (vi) collect scale tickets;
- (vii) provide timber sale layout services; and
- (viii) establish and implement a log quality control program.

(x) Non-Timber Asset Management. The Manager shall, in a manner customary for timberlands management practices for the relevant locations, manage and conduct the sale of the minerals, oil, rock, other forest products and gravel from the Tree Farms including:

- (i) obtaining valuation opinions from appropriate consultants;
- (ii) advertising, processing and handling bids;
- (iii) controlling contract compliance, inspection of mining and gravel removal;
- (iv) collecting any relevant scale tickets; and
- (v) accounting for contracted sales.

(y) Public Access/Use Management. In accordance with the Company's policies on public access or use that are notified to the Manager, the Manager shall administer any hunting, grazing, camping and other leases or licenses generating income for the Company or any Subsidiary or which affect the Tree Farms.

(z) Leases, Rights-of-Way and Easements. The Manager shall administer leases, rights-of-way and easements authorized or approved by the Company.

(aa) Property Records. The Manager shall maintain, on the Company's and each Subsidiary's behalf, accurate records on each Tree Farm's property, operation and management sufficient to satisfy ordinary and necessary tax and accounting reporting requirements. The Company and its agents may have access on demand at any reasonable time to these records as well as to the Manager's other books and records relating to the Tree Farms' management and operations. On termination of this Agreement with respect to any Tree Farm, the records kept by the Manager pertaining to that Tree Farm shall become the Company's property and the Manager shall promptly give them to the Company. However, the Manager may make and retain copies of these records at the Company's cost to the extent and for so long as is required in connection with performing the Manager's wind-down services under Section 4.4, defending against any claim relating to the Manager's management of the Tree Farms or otherwise required by law. If, after the termination of this Agreement, a claim arises relating to the Manager's management of the Tree Farms, the Company shall grant access to, and allow the Manager to copy, the records that the Manager requires to defend the claim.

(bb) Stewardship Projects. The Manager shall manage and implement stewardship projects as provided for in the Annual Budgets, or as otherwise agreed.

(cc) Contractor Oversight. The Manager shall contract for and monitor the provision of Subcontract Services (as defined below), including:

- (i) soliciting, receiving and awarding bids for Subcontract Services;
- (ii) entering into contracts for Subcontract Services on behalf of the Company, in the Company's name and at the Company's cost, in a form acceptable to the Company, in conformity with budgetary allocations and limits and in compliance with the requirements for subcontracting in this Agreement (or with the Company's prior written approval if outside the agreed upon form, budget or requirements); and
- (iii) appropriately monitoring the Subcontract Services for contractor compliance with the contract.

The Company shall pay for the Subcontract Services to the extent approved in the Annual Budget or otherwise approved in writing by the Company. If the Manager considers that it is more feasible or economical for the Manager's employees or affiliates to perform any of the Subcontract Services, with the Company's prior written approval from the President, the Manager shall perform those Subcontract Services and the Company shall pay the Manager for those services at the rate specified in the Company's written approval.

The "Subcontract Services" are:

- (A) site preparation and planting;
- (B) road, bridge, gate and culvert construction and maintenance;
- (C) firebreak construction and maintenance;
- (D) property boundary line maintenance and surveys;
- (E) vegetation management;
- (F) prescribed burning;
- (G) hardwood control;
- (H) insect and disease control;
- (I) aerial surveillance, photography or mapping;
- (J) slash burning and fire suppression;
- (K) contract logging and trucking;
- (L) fertilization;
- (M) stocking control;
- (N) animal control;
- (O) surveying for threatened and endangered species;
- (P) archaeological or other special surveys;
- (Q) timber marking;
- (R) stream surveys;
- (S) habitat assessment preparation;
- (T) annual re-inventory beginning in 2006; and
- (U) all other subcontract work incurred with the Company's prior written approval.

(dd) Public and Government Relations. The Manager shall assist the Company in preparing and publishing press release in connection with the Company's and Subsidiaries' formation and plan for assets or property sales, and in managing the Company's and Subsidiaries' relationships with state timber regulatory authorities.

(ee) Legal Affairs. If and to the extent directed by the President, the Manager shall cooperate with outside legal counsel, to be selected by the Company, with respect to claims and litigation in respect of events that occur after the Effective Date relating to the Tree Farms. In general, litigation support for claims and litigation in respect of events that occur before the Effective Date relating to the Tree Farms is not within the scope of the Manager's Services, although the Manager will provide de minimis levels of support at the Company's request.

(ff) Human Resources. The Manager shall provide personnel in sufficient number with appropriate levels of skill and experience to undertake the Services. Such personnel shall be the Manager's employees (as opposed to the Company's or any Subsidiary's employees) and, subject to Section 2.3, the Manager will be responsible for any compensation, benefits and related withholding or employment taxes to which such personnel may be entitled or relating to such employees.

(gg) Membership Log. Unless instructed otherwise by the President, the Manager shall maintain the Company's membership log, which shall show each Member and, for each Member, the interest it holds in the Company and its address. If requested by a Member, the Manager shall make the Membership Log available for review by that Member.

(hh) Information Technology. The Manager shall:

- (i) establish network infrastructure for centralized reporting;
- (ii) facilitate workstation and application support with any third-party support for Company computers at the Company's cost; and
- (iii) evaluate and update telecommunications links as appropriate.

The Manager shall ensure that the information and data for each Tree Farm is logically and physically separated from, and not intermingled with, information and data for other Tree Farms or any other aspect of the Company's, a Subsidiary's or the Manager's businesses. The information and data for the Tree Farms, the Company and the Subsidiaries belongs to the Company or the applicable Subsidiary. On termination of this Agreement, the Manager shall give this information and data to the Company in a format that the Company can readily use. However, the Manager may make and retain copies of this information and data at the Company's cost to the extent and for so long as is required in connection with performing the Manager's wind-down services under Section 4.4, defending against any claim relating to the Manager's management of the Tree Farms or otherwise required by law. If, after the termination of this Agreement, a claim arises relating to the Manager's management of the Tree Farms, the Company shall grant access to, and allow the Manager to copy, the records that the Manager requires to defend the claim.

(ii) Property Dispositions. To the extent requested by the Company, the Manager shall assist, cooperate and consult with the Company and its appointed brokers or agents, and shall provide the following disposition services, in respect of each proposed property disposition for each Tree Farm (and not including any brokerage or marketing activities):

- (i) assess the feasibility of selling all or part of any Tree Farm and determine whether the Company needs to reserve any interests in any land so sold, and assist in reserving such interests;
- (ii) assess alternative uses for the land;
- (iii) subject to the Company's prior written approval and to obtaining appropriate confidentiality undertakings, respond to and process due diligence and other information requests from potential buyers;
- (iv) prepare and provide schedules for purchase and sale agreements; and
- (v) prepare and provide schedules for closing adjustments for revenues and expenses in connection with property sales (including reconciliations of estimated revenues and expenses versus actual expenses and revenues).

To facilitate the dispositions, unless agreed otherwise with the buyer, the Manager shall not take any action that could prevent or hinder a buyer of all or part of any Tree Farms employing or entering into other service arrangements with any forester employed by the Manager who provided services in respect of such Tree Farms before the disposition (except for (x) foresters employed by the Manager before the Effective Date and (y) any additional persons employed as Tree Farm Managers for the Manager at the time of disposition). Without limiting the generality of the foregoing, and unless agreed otherwise with the buyer, the Manager shall take reasonable steps to encourage such foresters to accept a buyer's offer of employment or other provision of services and shall not solicit any forester who accepts such an offer.

(jj) Others. The Manager shall provide any other services mutually agreed by the parties.

1.2 Excluded Services. Unless the parties otherwise agree in writing, the Services do not include managing any extraordinary transactions not contemplated by this Agreement (such as a large-scale land exchange).

1.3 Use of Certain Company Assets. The Manager may use the Company's and Subsidiaries' personal property and equipment (including vehicles) at no charge to the Manager. The Company, or applicable Subsidiary, will bear the depreciation, leasing and replacement costs of these assets. Nothing in this Section 1.3 obligates the Company or any Subsidiary to provide any particular assets, or assets of a particular nature or standard. The Company makes no warranties about these assets, and disclaims any implied warranties about these assets whether relating to quality, merchantability, fitness for a particular purpose or any other matter. The Company and the Subsidiaries shall not be liable for any liabilities arising out of the Manager's use of these assets (including liability for personal injury).

1.4 Standard of Performance. Acting through its qualified employees and agents, the Manager shall perform its duties under this Agreement, including generally managing, overseeing and supervising each Tree Farm (including the forestry operations on or incidental to it) and providing or contracting for the labor, materials, equipment, supplies and services needed to operate and maintain each Tree Farm. In performing its duties under this Agreement, the Manager shall:

- (i) discharge its duties with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with such matters would use in managing an enterprise of a similar character and with similar aims, using generally accepted and proper land management and forestry practices and procedures acceptable to the Company; and
- (ii) act in accordance with federal, state, local and other governmental laws, rules, regulations and other requirements applying to forestry and management operations;
- (iii) act in accordance with the Company LLC Agreement; and
- (iv) act in good faith and with due care in selecting and employing reputable and qualified contractors and subcontractors.

1.5 Governmental Compliance.

(a) The Manager represents and warrants to the Company that the Manager has obtained the Licenses it needs to perform its duties under this Agreement. The Manager shall maintain these Licenses, and obtain and maintain any further Licenses it needs to perform its duties under this Agreement.

(b) The Manager shall take, or timely recommend, such action needed to comply with the federal, state, local and other governmental laws, rules, regulations and other requirements applying to the management and forestry operations conducted under this Agreement. Whenever a report, application, notice or other document (except for harvest permits and notices, and other normal course forestry operating permits) is required to be filed or reported with any governmental agency in connection with the Tree Farms or any forestry operations being conducted under this Agreement, the Manager shall immediately notify the Company of this, and the Manager will prepare initial drafts of any report, application, notice or other document for filing or reporting.

(c) The Manager shall exercise reasonable efforts to ensure that the contractors or subcontractors performing services on or relating to the Tree Farms comply with the federal, state, local and other governmental laws, rules, regulations and other requirements relating to them or the Tree Farms.

(d) On request, the Manager shall give the Company evidence satisfactory to the Company of the Manager's compliance with this Section 1.5.

1.6 Reporting. The Manager shall, in the normal course, report to the President. Where this Agreement requires the Manager to notify the Company, such notification requirement shall be deemed satisfied by the Manager notifying the President. If requested by the President or by the Company Board in respect of any matter or under any circumstances, the Manager shall report directly to the Company Board.

1.7 Independent Contractor Status. The Manager is an independent contractor under this Agreement. Nothing in this Agreement creates a joint venture, partnership or employment arrangement. The Manager may, in consultation with, and with the concurrence of, the President, enter into contracts or other commitments in the name of, or on behalf of, the Company or any Subsidiary necessary or appropriate to perform the Services for terms no longer than one year and total consideration payable by the Company and the Subsidiaries over the term of the contract or commitment not exceeding \$200,000. The Manager may enter into other contracts or other commitments in the name of, or on behalf of, the Company or any Subsidiary with the prior authorization of the Company Board.

2. Compensation

2.1 Management Fee. As compensation for the Services the Company shall pay the Manager the fee for each Tree Farm specified in Exhibit B ("Management Fee") each calendar month.

2.2 Credit for Interim Agreement. 50% of the fees paid to the Manager under the Interim Agreement (but not expenses reimbursed under the Interim Agreement) will be credited against payment of the Management Fee, divided evenly over the first six complete calendar months of the term of this Agreement.

2.3 Reimbursement of Costs. In addition to the Management Fee, the Company shall reimburse the Manager for its actual out-of-pocket costs relating to the field operations ("Reimbursable Costs"), including:

- (i) salaries, wages, future severance and benefits, and related withholding and employment taxes, for field forestry, inventory/GIS, and administrative personnel (excluding the Manager's area managers) based at the field offices;
- (ii) fees for temporary laborers and staff or other contract laborers performing field operations;
- (iii) operating costs for the Company's vehicles used in field operations (excluding insurance premiums);
- (iv) field office rent, equipment, utilities, phone and communication expenses, and other administrative costs specific to field operations;
- (v) Whidbey Island seed orchard management costs that the Manager pays to third parties; and
- (vi) as approved by the Company.

The Manager shall, to the extent consistent with performing its duties under this Agreement, use its reasonable best efforts to minimize the Reimbursable Costs and shall submit to the Company Board annual projections of Reimbursable Costs as part of the Annual Budgets under Section 1.1(a). The Manager shall also submit to the President, for the President's prior approval, proposals to hire any person for which the Manager will seek reimbursement under this Section 2.3. The Company shall not be liable to reimburse the Manager under this Section 2.3 for any such persons in respect of which the President has not granted approval.

2.4 Payment.

(a) Each calendar month, the Manager shall give the Company (i) an invoice stating in reasonable detail the amount payable for Services for the preceding calendar month and (ii) any other information that the Company reasonably requests. The Company shall pay the invoiced amount by wire transfer of immediately available funds to the bank account specified in the invoice within 10 Business Days after receiving the invoice and any such additional information.

(b) Before the start of each calendar month, the Manager shall give the Company a statement of estimated Reimbursable Costs for that month. During that calendar month, the Manager may pay these Reimbursable Costs from the Company's or applicable Subsidiary's bank account. Within 10 Business Days after the end of the calendar month, the Manager shall give the Company an analysis of the variances, if any, between estimated and actual Reimbursable Costs. On the Company's request, the Manager shall give the Company reasonable evidence of any Reimbursable Costs and any other information that the Company reasonably requests.

(c) If the Company considers at any time that a payment made from the Company's or applicable Subsidiary's bank account under Section 2.4(b) is not a Reimbursable Cost, the Company shall promptly notify the Manager of its determination and the parties shall seek to resolve the issue. At the Company's request, the Manager shall not make any further payments from the Company's or applicable Subsidiary's bank account under Section 2.4(b) for such types of costs until the issue is resolved. If the parties do not resolve the issue within 10 Business Days of the Company's notification to the Manager, either party may refer the issue to arbitration in accordance with Section 7.5. To the extent the expense reimbursement is disallowed by the arbitrator, the Manager shall promptly repay such amount to the Company (together with interest at the rate of interest most recently published by The Wall Street Journal as the "prime rate" at large U.S. money center banks) or, if such repayment is not made promptly, the Company may offset such amount from any amount payable to the Manager. If expense reimbursements of that type are allowed by the arbitrator and the Company had requested the Manager not to make further payments for such types of costs, the Manager may pay these withheld Reimbursable Costs from the Company's bank account (together with interest at the rate of interest most recently published by The Wall Street Journal as the "prime rate" at large U.S. money center banks).

(d) If the Effective Date is not the first day of a calendar month, (i) the Manager shall, in addition to the invoices, statements of estimated Reimbursable Costs, analyses of variances and related information for each calendar month, also give the Company such items in respect of the first partial calendar month during which this Agreement is effective and the last partial calendar month during which this Agreement is effective and (ii) the Management Fees for such partial calendar months, and for the calendar months during which the Management Fee changes, shall be pro rated based on the number of days in the applicable period divided by the number of days in the applicable calendar month.

(e) The Company may withhold from any payments taxes required to be withheld by law, governmental regulation or ruling.

3. **Term**

The term of this Agreement commences on the Effective Date and continues through the second anniversary of the Effective Date (unless earlier terminated under Section 4). The Agreement automatically renews for additional one year terms on each subsequent anniversary unless either party gives notice to the other party not less than 30 days before such date that it intends to terminate this Agreement.

4. **Termination**

4.1 **Termination Generally.** This Agreement may be terminated by:

- (i) the mutual agreement of the parties;
- (ii) either party, if the other party commits a material breach under it, and (if capable of cure) does not cure this breach within 30 Business Days of receiving notice of the breach from the terminating party;
- (iii) the Company, if the Manager is otherwise not able to provide the Services for more than 30 calendar days;
- (iv) the Company, if the Manager sells all or substantially all of its assets, merges or consolidates with an unaffiliated third party in such a manner that the Manager is not the survivor of the merger or consolidation, or otherwise ceases to exist, or there is a change of control of the Manager; or
- (v) the Manager by notice to the Company and CPLP, or by the Company or CPLP by notice to the Manager, at any time on or after June 1, 2005 if this Agreement has not at the time of notice become effective as a result of the Plan not becoming effective before that date.

4.2 **Automatic Termination of the Entire Agreement.** This Agreement automatically terminates if:

- (i) there are no Tree Farms with respect to which the Manager is providing Services; or
- (ii) either party is adjudicated as insolvent or to be liquidated, files or consents to the filing against it of a petition for relief or reorganization in bankruptcy (or under any similar law), consents to the appointment of a receiver, trustee or similar officer with respect to it or with respect to a substantial part of its property, or fails to dismiss within 30 days any petition or order seeking to effect any of the foregoing.

4.3 Automatic Termination of the Agreement with respect to a Tree Farm. This Agreement automatically terminates with respect to a given Tree Farm (or any part of a Tree Farm) if and when that Tree Farm (or part of the Tree Farm) is sold or disposed of, and no longer owned by the Company or its affiliates.

4.4 Wind-Down Services. At the Company's request, for up to 60 days following the termination of this Agreement, the Manager shall provide the following services for a fee of \$50,000 per month (to be pro rated for any parts of a month):

- (i) preparing any monthly, quarterly and annual reports referred to in Sections 1.1(d), 1.1(e) and 1.1(f) covering any period that begins before the termination of this Agreement, and sending such reports to Members in the manner provided in Section 1.1(g); and
- (ii) providing the services related to taxes referred to in Sections 1.1(h) and 1.1(i) for any period that begins before the termination of this Agreement.

By mutual agreement, the parties may extend the wind-down period as required for the efficient and complete wind-down of the Company's affairs. Section 1.4 (Standard of Performance), Section 1.6 (Reporting) and Section 1.7 (Independent Contractor Status) shall continue to apply during this wind-down period.

4.5 Survival of Obligations. On termination of this Agreement, the Manager shall promptly deliver to the Company all assets of the Company and its affiliates in the Manager's possession or control, and take any steps reasonably required by the Company to assign or effect the transfer to the Company of any such assets (including balances in bank accounts, and contractual rights). Termination under Section 4.1, 4.2 or 4.3 does not affect the parties' rights and obligations incurred before the date of termination, and this Section 4.5, Section 5, Section 6 and Section 7 remain in effect despite the termination.

5. Confidentiality

Except as otherwise provided in this Agreement, the Manager shall, and shall cause its affiliates, and the Manager's and its affiliates' respective officers, employees, accountants, counsel, consultants, agents and other representatives to whom the Manager or any other such person discloses such information (collectively, "Representatives"), to, keep confidential all information (including customer lists, trade secrets, pricing lists, property records, membership log, inventory data and appraisals) they have relating to the Company and its affiliates, and the Manager shall not, and shall cause its affiliates and the Representatives not to, use that information or disclose it to any person except as needed to perform the Services, except for information:

- (i) which is, or becomes, publicly available, other than through a breach of this Section 5 by the Manager, any of its affiliates or a Representative;
- (ii) received from a third party not bound by any confidentiality agreement with, or other confidentiality obligation owed to, the Company or any of its affiliates;
- (iii) required by applicable law to be disclosed by that party (after promptly notifying the Company and, to the extent practicable, giving the Company a reasonable opportunity to prevent public disclosure); or
- (iv) necessary to establish such party's rights under this Agreement (after promptly notifying the Company and, to the extent practicable, giving the Company a reasonable opportunity to prevent public disclosure).

6. Liability of Manager; Indemnity Against Third Party Claims

6.1 Limitation of Manager's Liability; Indemnity by the Manager. Notwithstanding Section 1.4, the Manager shall not be liable to the Company or its affiliates, or the Company's and such affiliates' directors, officers, employees, agents and other representatives, (collectively, the "Company Indemnitees") except for gross negligence, willful misconduct or fraud by the Manager (or any person acting on its behalf) in providing the Services under this Agreement. If it is ultimately determined by a final and unappealable decision of a court or arbitrator that the Manager (or any person acting on its behalf) has committed such gross negligence, willful misconduct or fraud, the Manager shall indemnify, defend and hold harmless the Company Indemnitees against all claims, liabilities, damages, losses or expenses (including reasonable attorneys' fees and other litigation expenses) (collectively, "Company Claims"), whether actual or alleged by a third party, that arise as a result of such gross negligence, willful misconduct or fraud (except to the extent the Company Claims were caused by the gross negligence, willful misconduct or fraud of the Company or any person acting on its behalf (except the Manager or any person acting on its behalf)) and shall promptly and timely pay all the expenses incurred by the Company Indemnitees in any proceedings for the Company Claims.

6.2 Indemnity by Company. The Company shall indemnify, defend and hold harmless the Manager and its affiliates, and the Manager's and such affiliates' directors, officers, employees, agents and other representatives (collectively, the "Manager Indemnitees"), against all claims, liabilities, damages, losses or expenses (including reasonable attorneys' fees and other litigation expenses) (collectively, "Manager Claims"), whether actual or alleged by a third party, that arise as a result of the Manager's performance of its duties in providing the Services (except to the extent the Manager Claims were caused by the gross negligence, willful misconduct or fraud of the Manager (or any person acting on its behalf)) and shall promptly and timely pay all the expenses incurred by the Manager Indemnitees in any proceedings for the Manager Claims as incurred and in advance of the final disposition of such proceedings, even if it is alleged that the Manager (or any person acting on its behalf) has acted in a manner constituting gross negligence, willful misconduct, or fraud. To the extent that it is ultimately determined by a final and unappealable decision of a court or arbitrator that the Manager (or any person acting on its behalf) has acted in a manner constituting gross negligence, willful misconduct, or fraud, the Manager shall be required to reimburse the Company for amounts advanced by the Company under this Section 6.2.

7. **Miscellaneous.**

7.1 Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to its subject matter. This Agreement supersedes all promises, representations, understandings, arrangements and prior agreements relating to this subject matter (including the Interim Agreement).

7.2 Binding Effect. This Agreement binds, and inures to the benefit of, the parties and their respective successors and permitted assigns. This Agreement does not confer rights or remedies on any person other than the parties and their respective successors and permitted assigns except as provided in Section 6.

7.3 Assignment. Except as provided in this Agreement neither party may assign any of its rights or obligations under this Agreement without the other party's written consent, except that the Company may assign its rights and obligations under this Agreement on the transfer of all or substantially all of its business or assets.

7.4 Governing Law. This Agreement is governed in all respects (including as to validity, interpretation and effect) by the internal laws of the State of New York without giving effect to its conflict of laws rules to the extent that they would require or permit the application of another jurisdiction's law.

7.5 Arbitration. The parties agree to submit any dispute, controversy or claim arising out of or relating to this Agreement, or its breach, interpretation, termination or validity, to binding arbitration in San Francisco in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered may be entered in any court having jurisdiction. The prevailing party shall be entitled to recover all fees and expenses (including reasonable attorneys' fees) incurred in connection with such proceedings (including the enforcement of any award rendered).

7.6 Amendments; Waivers. No provision of this Agreement may be modified, waived or discharged except in writing (and any modifications, waivers or discharges affecting the Company's rights or obligations are only effective if approved by the Company Board or a person authorized by the Company Board). No waiver by a party of a breach by the other party of, or compliance with, any provision of this Agreement shall constitute a waiver of that provision at any other time, or of other provisions.

7.7 Severability. If any provisions of this Agreement are invalid, illegal or unenforceable in any circumstances or jurisdiction, this shall not affect the validity, legality and enforceability of such provisions in any other circumstances or jurisdictions or the other provisions in this Agreement.

7.8 Notices. Notices or other communications required or permitted to be delivered under this Agreement shall be in writing and delivered:

- (i) personally, and shall be deemed to have been received on the date of delivery if received during normal business hours or else on the next Business Day;
- (ii) by nationally recognized overnight courier service, and shall be deemed to have been received on the second Business Day after delivery to the courier service;
- (iii) by certified or registered mail (first-class postage prepaid and return receipt requested) and shall be deemed to have been received on the fifth Business Day after mailing; or
- (iv) by facsimile transmission and shall be deemed to have been received on the day of transmission if received during normal business hours or else on the next Business Day, and

addressed as follows (or to such other address as the party entitled to notice designates in accordance with this Section 7.8):

if to the Company:

Cascade Timberlands LLC
c/o Olympic Resource Management LLC
19245 Tenth Avenue NE
Poulsbo, WA 98370
Fax: (360) 697-1476
Attention: Tom Ringo

with copies to each of the Company's directors at his or her address notified by the director or the Company to the Manager in writing from time to time

if to the Manager:

Olympic Resource Management LLC
19245 Tenth Avenue NE
Poulsbo, WA 98370
Fax: (360) 697-1476
Attention: Tom Ringo

with copy to:

Davis Wright Tremaine LLP
2600 Century Square
1501 Fourth Avenue
Seattle, WA 98101-1688
Fax: (206) 628-7699
Attention: Greg F. Adams, Esq.

7.9 Counterparts. This Agreement may be executed in counterparts, both of which together shall constitute one and the same instrument.

7.10 Interpretation. The section and other headings in this Agreement are for convenience only and do not affect the meaning of this Agreement. The word “including” is deemed to be followed by “without limitation.” A “Business Day” means any day (other than a Saturday or Sunday) on which banks in Washington and Oregon are open for business. An “affiliate” means, with respect to any specified person, any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person (where “control” means the power to direct the management and policies of such specified person, directly or indirectly, whether through ownership of voting securities, by contract or otherwise and “controlling” and “controlled” have corresponding meanings).

The parties have executed this Agreement as of the date first written above.

Cascade Timberlands LLC

By: _____
Name:
Title:

Olympic Resource Management LLC

By: _____
Name:
Title:

TIMBERLAND

PURCHASE AND SALE AGREEMENT

FOR THE MORTON, LEWIS COUNTY, WASHINGTON TIMBERLANDS

by and between

PLUM CREEK TIMBERLANDS, L.P.,

As Seller

and

POPE RESOURCES, A Delaware Limited Partnership,

As Purchaser

Dated the — day of December, 2003

**TIMBERLAND
PURCHASE AND SALE AGREEMENT
FOR THE MORTON, LEWIS COUNTY, WASHINGTON TIMBERLANDS**

THIS AGREEMENT is made and entered into this ___ day of December, 2003, by and among PLUM CREEK TIMBERLANDS, L.P., a Delaware limited partnership, as successor by merger to Plum Creek Timber Company, L.P., a Delaware limited partnership ("Seller") whose address is 999 Third Avenue, Suite 4300, Seattle, Washington 98104, and POPE RESOURCES, A Delaware Limited Partnership whose address is 19245 Tenth Avenue Northeast, Poulsbo, Washington 98370-0239 ("Purchaser").

Purchaser desires to purchase from Seller and Seller desires to sell to Purchaser approximately 3,297 acres of timberland and associated property and assets located in the State of Washington, known as the Morton, Lewis County, Washington Timberlands. In consideration of the mutual covenants set forth in this Agreement, the receipt and sufficiency of which are acknowledged, and subject to all terms of this Agreement, the parties agree as follows:

1. Purchase and Sale of Assets. Subject to the contingencies and other terms and conditions contained herein, Seller agrees to sell and Purchaser agrees to purchase the Assets (as defined in Paragraph 1.6), as follows:

1.1 Timberlands. All of Seller's right, title and interest in and to certain real property owned by Seller in Lewis County, Washington, as further described on Exhibit "A" attached hereto and incorporated herein by this reference ("Real Property"), together with all other rights and interests related or appurtenant thereto, including but not limited to all of Seller's right, title, and interest (i) in and to the merchantable and unmerchantable timber, growing, lying, standing or felled, timber interests and timber rights located on or appurtenant to the Real Property; (ii) in and to any mineral, sand, oil, gas, hydrocarbon substances and gravel and other hard rock rights on and under the Real Property not previously severed by Seller's predecessors in interest; and (iii) in and to any development rights, air rights, water, water rights, ditch and ditch rights appurtenant to the Real Property (collectively, all property described in this Paragraph 1.1 is herein called the "Timberlands").

1.2 Access Rights and Easements. All rights and interests of Seller in and to any access rights, rights-of-way and easements appurtenant to or benefiting the Timberlands and listed in **Schedule 1.2** ("Access Rights and Easements").

1.3 Maps and Records. All records and information in Seller's possession or control used in connection with or pertaining to the Timberlands, including, without limitation, Seller's records and information relating to timber inventories, timber management and operations reports, records relating to title matters, current agreements, roads, current easements and access rights, and environmental conditions, maps, Road Maintenance and Abandonment Plan, wildlife survey results, biological studies, open Forest Practice Applications (including any FPAs where any reforestation or other continuing forestland obligations remain uncompleted), aerial photos, plans, drawings, specifications, renderings, engineering studies, surveys, and electronic timber inventory data solely concerning the Timberlands (collectively, the "Maps and Records"). The term "Maps and Records" shall include all information, documents, records, maps, reports, due diligence materials, including, without limitation, surveys, forest management records, and wildlife and fisheries reports, received by Seller from the State Department of Natural Resources ("DNR") in connection with Seller's acquisition of the Timberlands from the DNR in 2001.

1.4 **Assets.** The Timberlands, Access Rights and Easements and Maps and Records are sometimes collectively referred to as the “Assets.”

1.7 **Possession.** Purchaser shall be entitled to possession of the Assets upon Closing.

2. **Purchase Price and Terms.**

2.1 **Purchase Price.** The purchase price for the Assets is Eight Million Five Hundred Five Thousand Dollars (US\$8,505,000) (“Purchase Price”).

2.2 **Earnest Money.** Upon full execution hereof, Purchaser shall place into the escrow with the Escrow Agent (defined below) the amount of Two Hundred Fifty Thousand Dollars (US\$250,000), in cash or by wire transfer or otherwise immediately available federal funds paid or delivered as earnest money (the “Earnest Money”) in part payment of the Purchase Price for the Assets. The Earnest Money shall be invested by Escrow Agent in an interest-bearing account mutually acceptable to the parties, with all interest earned thereon being for the account of Purchaser. The Earnest Money shall be refunded to Purchaser if this Agreement terminates for any reason other than Purchaser’s failure to close without legal excuse. The Earnest Money shall constitute Seller’s sole and exclusive remedy in the event Purchaser fails to close this transaction without legal excuse.

2.3 **Payment of Purchase Price.** At Closing, Purchaser shall pay Seller in cash or by wire transfer or otherwise immediately available federal funds the entire Purchase Price, of which the Earnest Money receipted herein is a part. The value of the Access Rights and Easements and Maps and Records is included in the value allocated to the Timberlands, which is 100% of the Purchase Price.

3. **Closing.** Subject to the provisions of Paragraph 14.1(h), Closing (“Closing”) shall occur at the offices of Transnation Title Insurance Company, 1200 Sixth Avenue, Seattle, Washington 98101 (“Escrow Agent”) on or before January 9, 2004, unless such date is extended by written agreement of the parties.

4. **Representations and Warranties of Seller.** Seller represents and warrants to Purchaser that except as disclosed in a Schedule or Schedules hereinafter described:

4.1 **Organization.** Seller is a limited partnership duly organized and validly existing under the laws of the State of Delaware.

4.2 **Good Standing.** Seller is qualified to do business in the State of Washington.

4.3 **Power and Authority for Transaction.** Seller has the power and authority to execute, deliver and perform this Agreement and the transactions contemplated herein in accordance with the terms hereof.

4.4 **Authorization.** The execution and delivery by Seller of this Agreement and the due consummation of the transactions contemplated herein have been duly and validly authorized by all necessary partnership actions on the part of Seller and this Agreement constitutes a valid and legally binding agreement of Seller.

4.5 **No Violation or Conflicts.** Neither the execution and delivery of this Agreement by Seller nor the consummation by Seller of the transactions contemplated herein (i) constitute a violation of Seller's certificate of limited partnership or limited partnership agreement, or (ii) result in the breach of or the imposition of any lien on any Assets pursuant to, or constitute a material default under, any indenture or bank loan or credit agreement or other agreement or instrument to which Seller is a party or by which it or its property may be bound or affected. Except for consents or approvals which will have been obtained or actions which will have been taken on or prior to the Closing Date, and except for consents, approvals, authorizations or actions described in Paragraph 16.2, no consent, approval, authorization or action by any governmental authority, or any person or entity having legal rights against or jurisdiction over Seller, is required in connection with the execution and delivery by Seller of this Agreement or the consummation by Seller of the transactions contemplated herein.

4.6 **No Defaults.** To Seller's knowledge, the Access Rights and Easements are valid and in full force and effect, and no event has occurred or is claimed to have occurred which may render unenforceable or permit the termination of any of the Access Rights and Easements. To Seller's knowledge, neither Seller nor, to Seller's knowledge, any other party thereto has breached or violated or is claiming Seller has breached or violated any provision of, or is in default or is claiming Seller is in default in any respect under, the terms or conditions of any Access Right or Easement. Except as disclosed on **Schedule 1.2**, the Access Rights and Easements are assignable to Purchaser without consent.

4.7 **Condemnation Proceedings.** Subject to Paragraph 14.1(e), no condemnation proceeding is pending or, to the knowledge of Seller, threatened which affects or could reasonably be expected to affect the Timberlands.

4.8 **Environmental Matters.** To Seller's knowledge, Seller warrants that:

(a) the Timberlands are not nor have they at any time been used for or suffered the generation, transportation, management, handling, treatment, storage, manufacture, emission disposal, release or deposit of any hazardous substances or fill or other material containing hazardous substances in material violation of applicable laws;

(b) there are no underground storage tanks on the Timberlands;

(c) Seller has not received written notification from any third party, including, but not limited to, any governmental agency, alleging that Seller, with respect to the management and operations of the Timberlands, and/or the Timberlands are not materially in compliance with, may require remediation under, or be subject to liability under applicable environmental laws; and

(d) there are no hazardous substances in, on or under the Timberlands or any part thereof that are in violation of applicable environmental laws except for such violations as would not (individually or in the aggregate) be material.

Except as to matters covered by Seller's warranty set forth in this Paragraph 4.8, Purchaser releases Seller from all costs, losses, liabilities, obligations and claims, of any nature whatsoever, known and unknown, that Purchaser may have against Seller or that may arise after the date of Closing based in whole or in part upon (i) Seller's failure to comply with any environmental laws applicable to the Timberlands; or (ii) the presence, release or disposal of any hazardous substance, solid waste, or any other environmental contamination on, within, or from the Timberlands before, as of, or after the Closing Date. The above-referenced release does not cover or apply to any statutory or common law claim for contribution or indemnity that may arise to the extent Purchaser suffers any liabilities or obligations from future claims of any governmental agency arising out of (i) or (ii) above, or any claims, costs, losses, liabilities, or obligations arising out of the activities of Seller or its agents, contractors or employees on, in, under or about the Timberlands after the Closing Date. As used herein, the term "environmental laws" shall mean all applicable federal, state or local laws, rules, regulations, governmental permits or other binding determinations of any governmental authority relating to or addressing the environment, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, as amended ("CERCLA"), and the Resource Conservation and Recovery Act, as amended ("RCRA"), the Toxic Substances Control Act, as amended ("TSCA"), the Clean Water Act, as amended ("CWA"), the Clean Air Act, as amended ("CAA"), and the Oil Pollution Control Act of 1990, as amended ("OPA"). As used herein, the terms "hazardous substance" and "release" (as it relates to the release of hazardous substances as opposed to the release of claims) have the meanings specified in CERCLA and the terms "solid waste" and "disposal" (or "disposed") have the meanings specified in RCRA. If either CERCLA or RCRA is amended to broaden the meaning of any term defined thereby, the broader meaning shall apply to this Paragraph 4.8 after the effective date of the amendment. Moreover, to the extent that Washington law establishes a meaning for "hazardous substance," "release," "solid waste," or "disposal" that is broader than that specified in either CERCLA or RCRA, the broader meaning shall apply.

4.9 Suits, Actions or Proceedings. There is (i) no court or administrative decision, permit, moratorium, judgment or order against Seller or specifically involving the Timberlands which materially and adversely affects the value of the Timberlands or the operations of the Timberlands as they are currently being operated; and (ii) no legal, administrative or other suit, action, proceeding or arbitration, or governmental investigation pending or, to the knowledge of Seller, threatened against Seller or specifically involving the Timberlands which would reasonably be expected to materially and adversely affect the value of the Timberlands or the operations of the Timberlands as they are currently being operated. There is no suit, action, claim, arbitration or other proceeding pending, or to the knowledge of Seller, threatened before any court or governmental agency, which may result in the restraint or prohibition of the consummation of the transactions contemplated by this Agreement.

4.10 Broker Fees. Seller has engaged Forestland Marketing /Troy Dana/Mike Flanagan (collectively, "Broker") as its broker, agent or finder with respect to this transaction, and Seller shall pay Broker at Closing all brokerage fees, agents' commissions and/or finders' fees owed to Broker in connection with the transaction contemplated herein. Purchaser shall have no liability or obligation to pay Broker any commissions or fees. Purchaser and Seller each represent and warrant to the other that no other broker, agent or finder, licensed or otherwise has been engaged by it, respectively, in connection with the transaction contemplated by this Agreement. In the event of any such claim for broker's, agent's or finder's fee or commission for any broker, agent or finder other than the Broker in connection with the negotiation, execution or consummation of this transaction, the party upon whose alleged statement, representation or agreement such claim or liability arises shall indemnify, hold harmless and defend the other party from and against such claim and liability, including without limitation, reasonable attorney's fees and court costs. Purchaser and Seller acknowledge that the representations and warranties contained in this Paragraph shall survive the Closing.

4.11 Compliance. Seller has not received written notification from any governmental agency alleging that the Timberlands or the use or condition thereof are not presently in compliance with applicable laws and Seller has no knowledge of any such violations relating to the Timberlands or the use or condition thereof. To Seller's knowledge, Seller maintains the Assets in material compliance with all applicable laws, ordinances, codes, permits, approved Forest Practices Applications, and regulations. Seller has not engaged in any timber harvest operations on the Timberlands since September 29, 2003.

4.12 Marketable Title. Seller has good and marketable title to the Assets and at Closing such Assets will be free and clear of all liens, security interests, charges and encumbrances except, in the case of the Timberlands, Permitted Exceptions defined in Paragraph 7(c).

4.13 Unrecorded Encumbrances; Ongoing Rights. There is currently and shall prior to Closing be no timber cutting or harvesting activity on or removal of any timber from the Timberlands. Except for the Forest Practice Application disclosed in **Schedule 4.13**, the Timberlands are not subject to any contracts, leases, cutting rights, logging, stumpage or other agreements, timber contracts or deeds, licenses, restrictive covenants, Forest Practice Applications, permits, tenancies, easements or reservations except those encumbrances of public record. Seller warrants that it shall not sell, mortgage or otherwise transfer the Assets or any portion thereof or interest therein, or modify, waive any rights under or terminate any Access Rights and Easements, breach or violate any terms or conditions in any Access Rights and Easements, or enter into any agreements, create any liens, claims, restrictions or encumbrances, or grant any rights or interests in or pertaining to the Assets or release or terminate any existing rights benefiting the Assets without the prior written consent of Purchaser, which shall not be unreasonably withheld. Seller has provided Purchaser with a copy of the FPA listed on **Schedule 4.13**.

4.14 No Adverse Claims. Except as to matters of public record, to Seller's knowledge, the Timberlands are not subject to any rights of persons in possession or persons making use thereof which would reasonably be expected to have a material adverse effect on the value of the Timberlands, nor has Seller received any notice that the Timberlands are subject to any claim of adverse possession or prescriptive easement.

4.15 ESA. To Seller's knowledge, there are no (i) endangered or threatened species (as defined or listed under federal law) nor any nesting site(s) or habitat of or waterways containing any such species located on or proximate to the Timberlands, or (ii) areas of the Timberlands within any "owl circles," which would materially and adversely affect the harvesting of the timber on the Timberlands.

4.16 Tribal Rights. Seller has not received written notice from any aboriginal or Native American tribe (or representative thereof) of any rights or claims of such tribe that relate to the Timberlands.

4.17 Timber Harvest Obligations. Except for approximately 65 acres located within the Timberlands in the area shown on the map attached hereto as Exhibit "B" for which an obligation remains to plant, (i) all timber harvest excise taxes, costs and liabilities associated with any prior harvesting and removal of timber or other natural resources from the Timberlands have been fully paid, and (ii) all other liabilities and obligations arising out of the use, ownership or possession of the Timberlands (including, without limitation, the removal of timber or other natural resources) prior to Closing will be fully paid and performed by Seller on or before Closing.

5. Representations and Warranties of Purchaser. Purchaser represents and warrants to Seller that:

5.1 Organization. Purchaser is a limited partnership duly organized and validly existing under the laws of the State of Delaware, and has the partnership power to enter into this Agreement and to carry out the transactions contemplated herein in accordance with the terms hereof.

5.2. Authorization; No Violation or Conflicts. The execution and delivery of this Agreement by Purchaser and the due consummation of the transactions contemplated herein have been duly and validly authorized by all necessary partnership action on the part of Purchaser, and this Agreement constitutes a valid and legally binding agreement of Purchaser. Neither the execution and delivery of this Agreement by Purchaser nor the consummation by Purchaser of the transactions contemplated herein constitute a violation of Purchaser's agreement of limited partnership or other organizational documentation or agreements or result in the breach of, or the imposition of any lien on any assets of Purchaser pursuant to, or constitute a default under, any indenture or bank loan or credit agreement, or other agreement or instrument to which Purchaser is a party or by which it or any of its properties may be bound or affected. Except for consents, approvals, or authorizations which will have been obtained or actions which will have been taken on or prior to the Closing Date, no consent, approval, authorization or action by any governmental authority or any person or entity having legal rights against or jurisdiction over Purchaser is required in connection with the execution and delivery by Purchaser of this Agreement or for consummation by Purchaser of the transactions contemplated herein.

5.3 Broker Fees. Purchaser has not employed any broker, agent or finder, or incurred any liability for any brokerage fees, agents' commissions or finders' fees, in connection with the transactions contemplated herein.

5.4 Suits, Actions or Proceedings. Purchaser has no knowledge of any suit, action, arbitration or other proceeding pending before any court or governmental agency, which may result in the restraint or prohibition of the consummation of the transactions contemplated by this Agreement.

6. Survival; Cushion Against Claims; Knowledge; Materiality.

6.1 Survival. The respective representations and warranties of Seller and Purchaser contained herein or in any Schedule, certificate or other instrument delivered by or on behalf of such party pursuant to this Agreement, including the environmental matters set forth in Paragraph 4.8, shall survive the Closing for a period of twelve (12) months and thereafter shall expire and terminate, and each party shall be forever released from liability to the other based upon such representations and warranties except as to matters for which notice has been given by a party of the inaccuracy or breach of any representation or warranty on or prior to such termination date. The representations and warranties of Seller contained in Paragraph 4.12 and in any deeds or assignment instruments transferring the Assets shall not be subject to the terms of this Paragraph 6.1.

6.2 Seller's Knowledge Defined. "Knowledge" as used in this Agreement with respect to the Seller shall mean actual current knowledge (as opposed to constructive or imputed knowledge) of the fact or matter in question by any officer of the Seller or by David Crooker; Michael Yeager, Director Land Management, Lee Spencer, Resources Manager, and Gregg Lewis, Forester.

6.3 Materiality Defined. “Material” or “materiality” or “materially” or “materially and adversely affect” as used in this Agreement with respect to Seller shall mean a claim, encumbrance or occurrence (including without limitation a breach of warranty or violation by Seller) that could lessen the value of the Assets by, or cause damages of, at least \$25,000.00.

7. Condition of Title and Title Insurance.

(a) As of the date of closing, title to the Timberlands is to be free of all encumbrances or defects except those listed in the preliminary commitments for title insurance deemed to be Permitted Exceptions as described below. Monetary encumbrances and any encumbrances arising after the date of this Agreement not caused by or approved in writing by Purchaser shall not be deemed to be Permitted Exceptions and shall be discharged by Seller and be paid from Seller’s funds at Closing. The following shall not be deemed encumbrances or defects and shall be deemed to be Permitted Exceptions: rights reserved in federal patents or state deeds, building or use restrictions consistent with current zoning, and rights previously reserved for minerals, metals and ores of every kind and nature (excluding sand, rock and gravel), and previously reserved rights for oil, gas and other hydrocarbons.

(b) At closing, Seller shall, at Seller’s expense, cause the Transnation Title Insurance Company to furnish to Purchaser a standard form ALTA Owner’s or Purchaser’s Policy of Title Insurance (policy form 1970-B or other available form approved by Purchaser) in the amount of the Purchase Price for the Timberlands insuring the title to the Timberlands in Purchaser, subject only to the Permitted Exceptions and any liens or encumbrances suffered or incurred by Purchaser (“Title Policy”). Purchaser shall be entitled to obtain at closing, at Purchaser’s cost, such special endorsements to the Title Policy as Purchaser may reasonably request.

(c) Seller has provided a copy of the preliminary commitments for title insurance for the Timberlands, together with copies of the exception documents referenced therein. Purchaser shall have until close of business on the date that is ten (10) business days after the date of mutual execution and delivery of this Agreement to notify Seller of any objections Purchaser has to any matters shown or referred to in the title commitments. Any title encumbrances or exceptions that are set forth in the title commitments to which Purchaser does not object during the period specified, except the encumbrances that Seller is required to remove under Paragraph 7(a) above, shall be deemed to be permitted exceptions to the status of Seller’s title (the “Permitted Exceptions”). With regard to items to which Purchaser does object within the period specified, Seller shall attempt to cure and remove such items prior to Closing. If Seller is unable or fails to cure or remove such items by the date that is five (5) days after the date Purchaser gives notice of such objection, Seller shall notify Purchaser thereof by the expiration of such 5-day period, and Purchaser may either waive its objection and proceed with closing, or terminate this Agreement by written notice to Seller no later than the date that is five (5) days after the date Purchaser receives such notice from Seller (or if Seller is unable or fails to timely cure or remove such items or give such notice to Purchaser, no later than ten (10) days after Purchaser gives its notice of objection). If Purchaser fails to give such notice to Seller within the time specified, the objection(s) shall be deemed waived by the Purchaser. If any supplements to any of the title commitments are issued after the date of this Agreement, Purchaser shall have until the later of (i) the expiration of the initial ten (10) business day title review period, or (ii) five (5) business days after receipt of such supplement, to notify Seller of Purchaser’s objection to any such matters shown therein, and if such notice is not given within such period, Purchaser shall be deemed to have accepted such matters, except the encumbrances that Seller is required to remove under Paragraph 7(a) above, as Permitted Exceptions. If Seller is unable or fails to cure or remove such items by the required date for Closing, Seller shall notify Purchaser thereof at least two (2) business days prior to such required date for Closing, and Purchaser may either waive its objection thereto and proceed with closing, or terminate this Agreement by written notice to Seller no later than the required date for Closing.

8. Condition of Property; Subsequent Acts.

8.1 Limitation on Representations. Purchaser agrees that neither Seller nor its agents, officers, employees or assigns shall be held to any covenant or representation respecting the condition of the Timberlands or any improvements thereon, nor shall Purchaser or Seller or the assigns of either be held to any covenant or agreement for alterations, improvements or repairs unless the covenant, representation or agreement relied on is contained herein or expressly or impliedly in the deeds or instruments transferring any of the Assets or is in writing and attached to and made a part of this Agreement.

8.2 Limitation of Warranties. Except for the representations and warranties made in this Agreement or contained, expressly or impliedly, in the deeds or instruments transferring any of the Assets, Purchaser specifically acknowledges and agrees that (i) Seller does not make any representations or warranties of any kind whatsoever, either express or implied, with respect to the Timberlands; and (ii) the Timberlands are sold to Purchaser in an "AS IS" and "WITH ALL FAULTS" condition as of the Closing Date, including without limitation the stability of soils, suitability for any construction or development, encroachment or boundary questions, drainage, availability of utilities, zoning, quantity, quality, acreage, access and similar matters. Purchaser assumes the risk that adverse physical conditions may not have been revealed by its investigation. The limitations and "AS IS" provisions of this Paragraph 8.2 specifically do not apply to the express exceptions to the release granted to Seller in Paragraph 4.8 hereof.

9. Liabilities Not Assumed. Except for obligations under the Access Rights and Easements arising from and after Closing, and as otherwise expressly set forth in this Agreement, Purchaser shall not assume or be responsible for any liabilities of Seller.

10. Access Rights and Easements.

At Closing, Seller shall assign, to the extent assignable, and, subject to the terms of Paragraph 16.2 below, Purchaser shall assume the Access Rights and Easements listed on **Schedule 1.2** pursuant to an executed blanket assignment in the form of **Schedule 10** hereto. Seller has provided copies of the Access Rights and Easements to Purchaser.

11. Access to Information. Upon full execution hereof, Seller will permit Purchaser to have reasonable access to the Timberlands and to the Maps and Records, whether located in Seller's Seattle office or elsewhere, provided, however, that any such access must be coordinated through Michael Yeager in Seller's Seattle office. Seller shall provide Purchaser with access to all other materials reasonably requested by Purchaser. Purchaser and its employees, agents and consultants shall have the right, at Purchaser's sole cost and expense, to enter onto the Timberlands prior to Closing to conduct such inspections of the Assets, document reviews, and tests as Purchaser deems reasonable; provided, however, that such access must be coordinated through Michael Yeager in Seller's Seattle office.

12. Confidentiality; Public Announcements; Return of Information. Subject to the provisions of Paragraph 12.3 below:

12.1 Neither Seller nor Purchaser shall disclose the content or substance of this Agreement to any individual, firm, partnership, corporation, entity, governmental authority, or other party except advisors, agents, lenders and representatives assisting each respective party in connection with this transaction, and except government agencies and other third parties to whom notice must be given or from whom consent must be obtained in order to complete the transactions described herein, until such disclosure is agreed upon in writing and then only to accomplish the consents and approvals required hereunder.

12.2 No press releases or other public statements concerning this Agreement or the transactions contemplated hereby shall be made by either party without the prior written approval of the other, provided such approval shall not be unreasonably withheld or delayed; provided further that the parties shall cooperate in good faith with respect to issuing a joint press release at or prior to Closing. Seller acknowledges that this transaction constitutes a "material transaction" for Purchaser with respect to disclosure requirements and Purchaser's press release will include disclosure of the Purchase Price. Seller agrees that upon the full execution of this Agreement, Purchaser may issue a press release regarding this transaction so long as the Purchase Price is not disclosed, and upon Closing Purchaser may issue a press release regarding this transaction including disclosure of the Purchase Price; provided, however, that Seller must approve the form and content of any such press release prior to its issuance, such approval not to be unreasonably withheld

12.3 Each party hereto, its representatives, agents and employees shall hold in strict confidence and shall not use or disclose to any person or organization any information or data concerning this Agreement or the transaction contemplated hereby except to the extent that (i) said information has been published or constitutes a matter of public knowledge or record; (ii) such disclosure is reasonably necessary for communications with and reporting to the Board of Directors or other governing body of either party or reasonably appears to be required by a governmental agency having jurisdiction over the parties; (iii) such information is necessary in connection with any suit brought to enforce the obligations of any party hereunder; or (iv) if based upon the legal opinion of counsel for the disclosing party, that such counsel reasonably believes that disclosure is necessary or desirable to avoid conflict with or violation of any applicable law, rule, or regulation.

12.4 In the event of termination of this Agreement for whatever reason, Purchaser will return all originals and copies of documents, work papers and other material obtained hereunder, whether obtained before or after the execution hereof (subject to retention of true copies for litigation purposes as applicable), and Purchaser agrees that it will not disclose or divulge any such information to any other person without Seller's written consent, and will use its best efforts to keep any information so obtained confidential; provided, however, that (i) Purchaser may disclose this information to its employees, attorneys, accountants and prospective lenders who need to know such information in connection with this transaction and who have been informed of Purchaser's obligation to maintain the information as confidential; and (ii) Purchaser shall not be obligated to treat as confidential any information which was known to it at the time of disclosure or which becomes publicly known or available thereafter or is rightfully received by Purchaser from a third party.

13. Exchange. Seller may wish to complete this transaction as part of a Section 1031 tax-deferred exchange. Purchaser agrees to cooperate with Seller in documenting and completing such exchange by agreeing that Seller may transfer Seller's rights and obligations under this Agreement to Seller's Qualified Intermediary, in Seller's sole discretion, provided that such assignment, if made, shall not release Seller from its obligations under this Agreement. Purchaser agrees to accept Seller's Qualified Intermediary as the assigned Seller of the Property described in this Agreement. Purchaser shall incur no additional expense or liability by such cooperation. Purchaser may wish to complete this transaction (or portion thereof) as part of a Section 1031 tax-deferred exchange. Seller agrees to cooperate with Purchaser in documenting and completing such exchange by agreeing that Purchaser may transfer all or any portion of Purchaser's rights and obligations under this Agreement to Purchaser's Qualified Intermediary or Exchange Accommodation Titleholder (as defined in Rev. Proc. 2000-37), in Purchaser's sole discretion, provided that such assignment, if made, shall not release Purchaser from its obligations under this Agreement. Seller agrees to accept Purchaser's Qualified Intermediary or Exchange Accommodation Titleholder as the assigned Purchaser of the Property described in this Agreement. Seller shall incur no additional expense or liability by such cooperation.

14. Closing.

14.1 Conditions to Purchaser's Obligations. The obligations of Purchaser to perform this Agreement are subject to the satisfaction, in all material respects on or before the Closing Date or the date indicated for any such contingency listed below (whichever is earlier), of each of the following conditions and any other conditions to Purchaser's obligations hereunder specified elsewhere in this Agreement, unless waived in writing by Purchaser in its sole discretion:

(a) **Material Inaccuracies.** Seller's representations and warranties shall be true and correct in all material respects on and as of the Closing Date as though made on and as of the Closing Date and Seller shall deliver a certificate to that effect at Closing.

(b) **Performance of Obligations.** Seller shall have performed all obligations required to be performed by it prior to or on the Closing Date under this Agreement.

(c) **Title Insurance Commitment.** At Seller's expense, Purchaser shall have received a binding commitment from Transnation Title Insurance Company for the issuance of the Title Policy, and any special endorsements thereto reasonably required by Purchaser (which special endorsements shall be at Purchaser's expense), subject only to the Permitted Exceptions. It shall be reasonable for Purchaser to require a special endorsement to the Title Policy which insures that the Declaration (as defined in Section 14.1(h) below) and the Murray Pacific Habitat Conservation Plan ("HCP"), Amended HCP, Implementation Agreement and Amended Implementation Agreement, as described in the Declaration, do not affect or bind the Timberlands or any portion thereof.

(d) **Suits, Actions or Proceedings.** No suit, action, arbitration or other proceeding shall be pending before any court or governmental agency, which may result in the restraint or prohibition of the consummation of the transactions contemplated by this Agreement, or which could reasonably be expected to have a material adverse effect on the value of the Assets or the use of the Timberlands as commercial timberlands, and all governmental and regulatory approvals and clearances which are required to consummate such transactions, if any, shall have been obtained.

(e) **Casualty, Loss or Condemnation.** The Timberlands shall not have become subject, subsequent to the date of this Agreement and prior to the Closing Date, to physical damage by fire, flood, windstorm, earthquake or other similar occurrence, or to any condemnation proceeding, which causes or may result in a diminution in the value of the Timberlands by at least \$800,000. If Purchaser elects to waive the condition set forth in this Paragraph 14.1(e), or if any material casualty or condemnation loss diminishes the value of the Timberlands by less than \$800,000, the Purchase Price shall be reduced to reflect the diminution in value resulting or expected to result from the casualty or condemnation, in which event Seller shall be entitled to retain any compensation awards, insurance proceeds or other payment or relief resulting from such casualty or condemnation. If the parties cannot agree upon the extent of the diminution in value, the determination shall be made by an independent expert mutually agreed upon by the parties. The foregoing notwithstanding, if the amount of the casualty or condemnation loss diminishes or is expected to diminish the value of the Timberlands, by \$25,000 or less, there shall be no adjustment to the Purchase Price; provided, however, that in such event Purchaser shall be entitled to receipt and assignment of any compensation awards, insurance proceeds or other payment or relief resulting from such casualty or condemnation.

(f) **Due Diligence Review.** Purchaser may, at Purchaser's sole cost and expense, conduct a due diligence review of the Maps and Records, Access Rights and Easements, and the following conditions affecting or pertaining to the Timberlands: environmental, title, access, endangered or threatened species and any nesting site(s) or habitat thereof or waterways containing any such species, and "owl circles," such due diligence review to be completed not later than the date that is ten (10) business days after the date of mutual execution and delivery of this Agreement. Purchaser's due diligence review may include review and analysis of all documentation, determinations, reports, files and studies of any state or other governmental agency relating to endangered or threatened species, or any nesting site(s) or habitat thereof or waterways containing any such species, or any "owl circles" on or affecting the Timberlands. Purchaser's obligations to consummate the transactions described herein are subject to and conditioned upon Purchaser's acceptance of the findings of such due diligence review in Purchaser's sole good faith discretion. In the event Purchaser fails to give notice to Seller of Purchaser's nonacceptance of its due diligence review by the expiration of the 10 business day due diligence contingency period, Purchaser shall be deemed to have waived this condition to Closing.

(g) **Approval of Continuance Request.** Purchaser's request for continuance of the forestland or timberland designation or classification of the Timberlands shall have been granted by the Lewis County Assessor at or prior to Closing.

(h) **Removal of Declaration of Covenant from Timberlands.** Prior to Closing, the Declaration of Covenant recorded under Lewis County Rec. No. 9313627, as amended by Amendment recorded under Lewis County Rec. No. 9512060 (the "Declaration"), relating to the Murray Pacific HCP, Amended HCP, Implementation Agreement, and Amended Implementation Agreement, shall be removed from title with respect to the Timberlands and all portions thereof by a recorded release or other documentation reasonably satisfactory to Purchaser and the underwriters for Transnation Title Insurance Company ("Release"). Purchaser shall be deemed to have a reasonable basis to disapprove such release or other documentation if it is revocable, conditional, effective on a date later than the date of its recordation, or is not signed by all necessary parties. If this condition to Closing has not been satisfied by January 9, 2004, the Closing Date shall be automatically extended to allow said contingency to be satisfied, provided that the Closing Date shall not be extended beyond January 30, 2004. Seller shall use its reasonable efforts to cause the Release to be timely signed and recorded. Seller agrees to be a party to the Release. If this condition to Closing is satisfied, the Declaration shall not show as an exception on Purchaser's title policy.

In the event any of the above conditions to Purchaser's obligations hereunder are not satisfied or waived by Closing or the earlier dates indicated above, Purchaser will have the right, exercisable at Purchaser's sole election, to terminate this Agreement, whereupon the Earnest Money will be refunded to Purchaser and no party hereto will have any further rights, duties or obligations hereunder other than those which expressly survive a termination hereof.

14.2. Conditions to Seller's Obligations. The obligations of Seller to perform this Agreement are subject to the satisfaction, in all material respects on or before the Closing Date, of each of the following conditions and any other conditions to Seller's obligations hereunder specified elsewhere in this Agreement, unless waived in writing by Seller in its sole discretion:

(a) **Material Inaccuracies.** Purchaser's representations and warranties shall be true and correct in all material respects on and as of the Closing Date and Purchaser shall have delivered a certificate to that effect at Closing.

(b) **Performance of Obligations.** Purchaser shall have performed all obligations required to be performed by it prior to or on the Closing Date under this Agreement.

(c) **Suits, Actions or Proceedings.** No suit, action, arbitration or other proceedings shall be pending before any court or governmental agency which may result in the restraint or prohibition of the consummation of the transactions contemplated by this Agreement, and all governmental and regulatory approvals and clearances which are required to consummate such transactions, if any shall have been received.

In the event any of the above conditions to Seller's obligations hereunder are not satisfied or waived by Closing, Seller will have the right, exercisable at Seller's sole election, to terminate this Agreement, whereupon the Earnest Money will be refunded to Purchaser and no party hereto will have any further rights, duties or obligations hereunder other than those which expressly survive a termination hereof.

14.3 Prorations. All real property taxes shall be prorated to the Closing Date.

14.4 Closing Costs.

(a) At Closing Seller shall pay the following costs and expenses associated with the closing of the transactions contemplated hereunder:

- (i) The cost of the standard owner's policy or policies of title insurance;
- (ii) One-half of escrow fees;
- (iii) All transfer, excise, and recording taxes or fees due on the transfer or conveyance of the Assets, including without limitation real estate excise tax on the conveyance of the Timberlands; and
- (iv) Seller's Broker's fees and commissions and Seller's attorney's fees.
- (v) Any and all compensating or "roll-back" taxes that may become due or assessable as a result of the removal of the Timberlands or any portion thereof from its present property tax classification or designation as "timberlands" or "forestland" prior to Closing or as a result of the inability of Purchaser to obtain a requested continuance of such classification or designation at Closing based upon any prior act or omission of Seller.

(b) Purchaser shall pay:

- (i) One-half of the escrow fees;
- (ii) Title insurance premium attributable to extended coverage, if any, or any endorsements;
- (iii) Recording fees for deeds; and
- (iv) Purchaser's attorneys' fees.

(v) Any and all compensating or "roll-back" taxes that may become due or assessable as a result of the removal of the Timberlands or any portion thereof from its present property tax classification or designation as "timberlands" or "forestland" as of or after Closing, unless caused by action or failure to act on the part of Seller.

Except as otherwise provided in this Agreement, each party shall be responsible for the payment of costs incurred by said party in connection with the transaction contemplated by this Agreement.

14.5 Closing. At Closing:

(a) Seller shall deliver to Purchaser the following:

- (i) Special Warranty Deed for the Timberlands in the form attached as **Schedule 14.5(a)(i)**.
- (ii) Nonforeign Affidavit to the effect that Seller is not a foreign person as that term is used in Section 1445 of the Internal Revenue Code;
- (iii) An Assignment and Assumption Agreement for the Access Rights and Easements to be recorded in Lewis County in substantially the form attached hereto as **Schedule 10**;
- (iv) A prepaid binding commitment for a standard coverage Policy of Title Insurance; and
- (v) An Officer's Certificate regarding representations and warranties.

(b) Purchaser shall deliver to Seller the following:

(i) Executed copy of the Assignment and Assumption Agreement of the Access Rights and Easements in substantially the form attached hereto as **Schedule 10**;

(ii) An Officer's Certificate regarding representations and warranties;

and

(iii) The Purchase Price.

At least ten (10) business days prior to Closing, Seller and Purchaser shall complete and sign appropriate Real Estate Excise Tax Affidavit with respect to the conveyance of the Timberlands in which Purchaser covenants that it will request continuance of the present "timberlands" or "forestland" property tax classification of the Timberlands, and Purchaser may then, prior to Closing, submit such Real Estate Excise Tax Affidavits to the County Assessor to obtain approval of the continuance request.

At Closing Seller and Purchaser shall sign and deliver into escrow notices to the State Department of Natural Resources ("DNR"), on DNR approved forms, wherein notice is given by Seller to the DNR of the assignment to Purchaser of the approved Forest Practices Application to be assigned to Purchaser under this Agreement, and Purchaser affirms, as the new landowner, timber owner and operator, that it agrees to be bound by all conditions on such approved Forest Practices Application. Upon Closing, such notices shall be transmitted to the DNR.

15. Indemnification. Seller shall defend and indemnify Purchaser and hold it harmless from any claim, damage, liability, loss, cost, deficiency, judgment or expense (reference to "expense" shall include, without limitation, reasonable attorneys' fees and other costs and expenses incident to any actions, suits, proceedings or investigations or the defense of any claims, whether prior to or at trial or in appellate proceedings) (i) arising out of, resulting from or relating to claims by third parties arising out of any acts or omissions of Seller prior to Closing or any injuries, accidents, occurrences, activities or events occurring on the Timberlands prior to Closing, and (ii) for obligations or liabilities arising or accruing with respect to the Assets prior to the Date of Closing. Purchaser shall defend and indemnify Seller and hold it harmless from any claim, damage, liability, loss, cost, deficiency, judgment or expense (reference to "expense" shall include, without limitation, reasonable attorneys' fees and other costs and expenses incident to any actions, suits, proceedings or investigations or the defense of any claims, whether prior to or at trial or in appellate proceedings) (i) arising out of, resulting from or relating to claims by third parties arising out of any acts or omissions of Purchaser for activities conducted by Purchaser or its employees, agents or contractors inspecting the Timberlands prior to Closing or any injuries, accidents, occurrences, activities or events occurring on the Timberlands after Closing (except to the extent caused by Seller or its agents, contractors or employees), and (ii) for obligations or liabilities arising or accruing with respect to the Assets after the Date of Closing. Purchaser's and Seller's respective defense and indemnity obligations under this Paragraph 18 shall survive Closing.

16. Closing and Post-Closing Adjustments and Post-Closing Matters.

16.1 Reforestation Obligations. Seller shall complete prior to Closing all statutory reforestation obligations it may have with respect to the Timberlands, except as expressly provided in the following sentence. Seller and Purchaser acknowledge and agree that approximately 65 acres of the Timberlands located in the area shown on the map attached hereto as Exhibit "B" are subject to reforestation obligations that Seller will not complete prior to Closing. Purchaser agrees to assume this reforestation obligation as to said approximate 65 acres; provided, however, Seller agrees to provide to Purchaser, at Seller's sole cost and expense, 26,000 suitable planting stock elevation and geographic zone Douglas-fir seedlings to fulfill such reforestation obligations; and provided, further, that Purchaser shall receive a credit at closing in the amount of \$6,000 which the parties approximate is the cost of planting such seedlings.

16.2 Third Party Consents. Notwithstanding anything to the contrary in this Agreement, the Access Rights and Easements identified on **Schedule 16.2** require the consent or approval of a third party, and if such consent is not obtained prior to Closing, such Access Rights and Easements for which required consent has not been obtained shall be assigned to Purchaser at Closing on the following basis, terms and conditions: (1) Seller shall assign such Access Rights and Easements subject to and effective only at such time as such consent is obtained; (2) Seller shall continue to use reasonable and diligent efforts, at its cost and expense, to obtain any such consent or approval after the Closing Date; (3) until such time as such consent has been obtained, Seller will cooperate in all reasonable respects with the Purchaser in any lawful and economically feasible arrangement to provide that the Purchaser shall receive the interest of the Seller in the benefits under any such Access Rights and Easements (except that any such arrangement shall not require performance by Seller as agent) provided that the Purchaser shall undertake to and shall pay or satisfy the corresponding liabilities for the enjoyment of such benefit to the extent Purchaser would have been responsible therefor if such consent or approval had been obtained; and (4) Purchaser shall have no obligations or liabilities under or with respect to such Access Rights and Easements until the earlier of (i) the date such consent is obtained and (ii) the date that Purchaser receives the benefits thereunder, and then only for obligations or liabilities arising thereunder or with respect thereto after such date. If this transaction closes on the foregoing basis, the Assignment and Assumption Agreement pertaining to any such Access Rights and Easements where such required consent has not been obtained as of Closing, shall contain appropriate provisions consistent with the provisions of this Paragraph 16.2.

17. **Miscellaneous.**

17.1 **Further Assurances.** If, at any time after the Closing Date, either party shall consider or be advised that any further instruments or assurance or any other things are necessary or desirable to carry out the terms of this Agreement, the other party shall execute and deliver all such instruments and assurances and do all things reasonably necessary and proper to carry out the terms of this Agreement.

17.2 **Integration.** This Agreement and the documents delivered pursuant hereto contain the entire agreement among the parties with respect to the subject matter hereof and supersede all prior negotiations. None of the parties shall be bound by nor shall be deemed to have made any representations, warranties or commitments except those required to be made by the terms of this Agreement, or those which are contained herein or in the documents delivered pursuant hereto.

17.3 **Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original instrument, and all such counterparts together shall constitute one Agreement.

17.4 **Severability.** Any term or provision of this Agreement that is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any term or provision of this Agreement is so broad as to be invalid or unenforceable, the provision shall be interpreted to be only so broad as is valid or enforceable. Subject to the foregoing provisions of this Paragraph 20.4, if any term or provision of this Agreement is invalid or unenforceable for any reason, such circumstances shall not have the effect of rendering such term or provision invalid or unenforceable in any other case or circumstance.

17.5 **Successors and Assigns.** This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

17.6 **Governing Law.** This Agreement shall be governed by and construed in accordance with the internal laws of the State of Washington.

17.7 **Assignment.** Except as expressly permitted pursuant to Paragraph 13, neither party may assign its rights hereunder prior to the Closing without the prior written consent of the other, which may be withheld for any reason.

17.8 **Captions and Paragraph Headings.** The headings used in this Agreement are for convenience only and shall not affect the construction of any of the terms of this Agreement.

17.9 **Notices.** Notices under this Agreement shall be in writing and shall be effective when actually delivered or, if mailed, on the earlier of receipt (or refusal of receipt) or three (3) business days after being deposited, postage prepaid, in the United States' mails as certified mail, return receipt requested, directed to the other party at the address set forth below, or, if sent via facsimile transmission, on the date such facsimile transmission to the facsimile number of the other party set forth below is confirmed by machine-printed confirmation of the sender's facsimile machine. The address or facsimile numbers for notices to a party hereunder may be changed by such party by written notice to the other party.

If to Seller: Plum Creek Timberlands, L.P.
999 Third Avenue, Suite 4300
Seattle, WA 98104
Attention: Sheri L. Ward, Director Law
Facsimile: (206) 467-3799

If to Purchaser: Pope Resources, L.P.
19245 Tenth Avenue Northeast
Poulsbo, WA 98370-0239
Attn: John Shea, Director of Business Development
Facsimile: (360) 697-1156

With a Copy to: Warren Koons, Esq.
Davis Wright Tremaine LLP
777 – 108th Ave. NE, Suite 2300
Bellevue, Washington 98004-5149
Facsimile: (425) 646-6199

17.10 **Time is of the Essence.** Time is of the essence of this Agreement.

17.12. **Default.** If either party defaults (that is, fails to perform the acts required of it) in its contractual performance herein or breaches any of its representations or warranties contained herein, the non-defaulting party, subject to the following paragraph, shall be entitled to exercise all rights and remedies available to it at law or equity, including but not limited to specific performance pursuant to the terms of this Agreement, damages or rescission. If the non-defaulting party seeking damages or rescission is the Purchaser, the Earnest Money, together with any interest thereon, shall be refunded.

Purchaser acknowledges that if Purchaser fails to purchase the Assets so as to constitute a default by Purchaser hereunder, for any reason other than the breach of Seller, Seller shall be entitled to forfeit the Earnest Money as compensation for the detriment resulting from the removal of the Property from the market, and entering into this Agreement rather than selling to other potential purchasers. Therefore, in the event of Purchaser's failure to purchase the Assets so as to constitute Purchaser's default hereunder, Seller shall have, as Seller's sole and exclusive remedy, the right to receive the Earnest Money, together with any interest thereon, which sum shall represent liquidated damages for breach and not a penalty therefor. The parties acknowledge and agree that the Earnest Money is presently a reasonable estimate of Seller's damages, considering all of the circumstances existing on the date of this Agreement, including the relationship of the sum to the range of harm to Seller that reasonably could be anticipated and the expectation that proof of actual damages would be impractical or extremely difficult. Factors taken into consideration by the parties include Seller's loss of opportunity during the pendency of this Agreement to sell the Assets to others on better terms, or at a higher price; Seller's risk of loss of a bargain if the market turns negative; Seller's damages related to its continuing obligations for the payment of taxes and insurance; and Seller's loss of earnings on the amount of the purchase price resulting from a delay in closing. Purchaser hereby waives all rights or benefits of any law, rule or regulation, now or hereafter existing, which would allow Purchaser, following Purchaser's failure to purchase the Assets so as to constitute Purchaser's default, to claim a refund of the Earnest Money, together with any interest thereon, as unearned earnest money, a penalty or for any other purpose. Seller hereby waives all rights, remedies and claims, other than forfeiture of the Earnest Money that Seller may otherwise have for Purchaser's failure to purchase the Assets so as to constitute a default by Purchaser under this Agreement.

17.13 Schedules Incorporated. The schedules attached to this Agreement ("Schedules") are incorporated herein by reference:

Schedule	Description
1.2	Access Rights and Easements
4.13	Unrecorded Contracts, Agreements, FPAs, etc.
14.5(a)(i)	Form of Special Warranty Deed for Washington
10	Assignment of Access Rights and Assumption Agreement
16.2	Third Party Consents for Assignment of Access Rights and Easements

17.14 Costs and Expenses. Except as otherwise expressly provided in this Agreement, each party to this Agreement shall pay its own costs and expenses (including, without limitation, the fees and expenses of its agents, representatives, counsel and accountants) incurred in connection with the closing of the transactions contemplated under this Agreement.

17.15 Attorneys Fees and Other Costs. If either party initiates any proceeding in law, equity or arbitration concerning this Agreement or any of its provisions, the party that substantially prevails in such proceeding shall be paid by the party not so prevailing therein all costs and expenses incurred in such proceeding, including reasonable attorneys' fees at the pretrial, trial and appellate levels as determined by the court or courts considering the matter.

17.16 No Third Party Beneficiaries. This Agreement is made and entered into for the sole protection and legal benefit of the parties and, subject to the restrictions on assignment set forth herein, their respective successors and assigns, and no other person or entity shall be a direct or indirect legal beneficiary of, or have any direct or indirect cause of action or claim in connection with, this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this instrument the day and year first above written.

PLUM CREEK TIMBERLANDS, L.P.

By Plum Creek Timber I, L.L.C.,
Its General Partner

Attest

By _____
James A. Kraft
Senior Vice President, General Counsel
and Secretary

By: _____
Sheri L. Ward, Assistant Secretary

POPE RESOURCES, A Delaware Limited Partnership

By: _____
David L. Nunes
CEO

EXHIBIT "A"

That certain real property located in Lewis County, Washington described as follows:

Township 12 North, Range 4 East, W.M.

Section 36: ALL; Except that portion of the S1/2 lying Southerly of the following described line:

BEGINNING at a point on the West line of said Section 36, which is 657.4 feet South of the West quarter corner thereof; thence Southeasterly to the South quarter corner of said Section; thence Northeasterly to a point on the East line of said Section which is 662.34 feet South of the East quarter corner thereof and the terminus of said line.

Township 13 North, Range 4 East, W.M.

Section 36: NE1/4, SW1/4 and SE1/4.

Township 13 North, Range 5 East, W.M.

Section 16: ALL

Section 18: That portion of the SE1/4NE1/4 lying within a 50 foot wide strip of land, the centerline of which is described as follows:

BEGINNING at a point on the East line of said subdivision which is 1109 feet North of the Southeast corner thereof; thence South 80°30' West a distance of 67 feet; thence on a curve to the left having a radius of 146.2 feet a distance of 141.2 feet; thence South 24° West a distance of 89 feet; thence on a curve to the right having a radius of 287.9 feet a distance of 370 feet; thence North 82° West a distance of 116 feet to the Southerly line of the right of way of the Tacoma and Eastern Railway and the terminus of said centerline.

ALSO that portion of the E1/2SE1/4NE1/4 lying Southerly of the Tacoma and Eastern Railway right of way and Northerly of the above described property.

Section 22: S1/2SW1/4 and S1/2SE1/4

Section 26: ALL

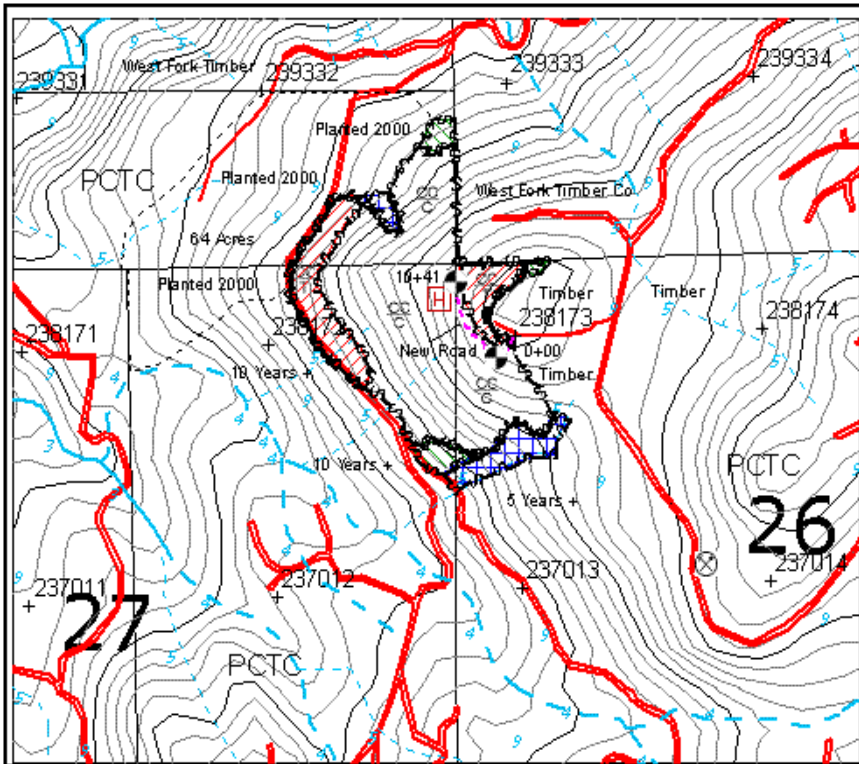
Section 27: E1/2

Section 29: That portion of the NW1/4 lying Northerly of the St. Regis Paper Company Logging Road as described in deed recorded April 15, 1959 under Auditor's File No. 598947.

Section 34: NE1/4, N1/2NW1/4, S1/2SW1/4, NE1/4SE1/4 and S1/2SE1/4.

Section 35: N1/2NW1/4 and NW1/4NE1/4.

Sections 22,26,27 T13N, R5E



	Landing		Harv_Sym_CC_Catb
	Helipod		WRIGHT Path
	Helispot		RME Boundary
	Helispot Location	Prepared By: g Lewis	Checked by: g Lewis
	-122:09:30.0902, 46:35:20.1913, Lon, Lat(d:m:s), Hgt(m)	Shovel C 12000	9/12/02
	Harvest Boundary	Harv_Sym_CC_Instr	12/22/03

EXHIBIT "B"

Reforestation Map

SCHEDULE 1.2

Access Rights and Easements

Grantor	Grantee	Date	Recording Info.
State of Washington, DNR	Plum Creek Timber Company, L.P.	11/28/1990	Rec. 12/13/90 AF# 9013191, Vol.459, Pg. 557, subsequently amended under Easement No. 50-51161, AF#3127415, recorded 12/12/2001
Burlington Northern Railroad Company	State of Washington, DNR	4/10/84	AF#922072, Rec. 4/16/84, Vol. 283, Pg. 824
Northern Pacific Railway Company	State of Washington, DNR	6/30/66	AF#697932. Rec. 7/14/66, Vol.446, Pg. 837
Murray Pacific Corporation	State of Washington, DNR	11/3/93	AF#9316199, Rec. 11/3/93 Vol.574, Pg. 744
Milwaukee Land Company; Northern Pacific Railway Company; West Tacoma Newsprint Company; United States Plywood Corporation	State of Washington, DNR	2/14/67	AF#715221, Rec. 9/7/1967 Vol. 454, Pg. 532
Boise Cascade Corporation	State of Washington, DNR	1/12/77	AF#825376, Rec. 1/19/77 Vol. 134, Pg. 374
Murray Pacific Corporation	State of Washington, DNR	8/8/79	AF#867261, Rec. 8/21/79 Vol. 194, Pg. 810

Chicago, Milwaukee, St. Paul and Pacific Railroad Company	State of Washington, DNR	10/8/79	Rec. 3/17/80 Vol. 205, Pg. 787
St. Regis Paper Company	Northern Pacific Railway Company	6/30/64	AF#669471 Vol. 435, Pg. 472
St. Regis Paper Company	Northern Pacific Railway Co.	8/19/60	Rec. 9/30/60 Vol. 33, Pg.589 AF#617389
United States Plywood Corp.	Northern Pacific Railway Co.	5/24/65	Recorded 6/4/65 Vol.439/Pg.727 AF#680424

SCHEDULE 4.13

Unrecorded Contracts, Agreements, FPAs

1. Forest Practices Application/Notification No. 2510283 dated November 5, 2002

SCHEDULE 14.5(a)(i)

Form of Special Warranty Deed

After recording return to:

TRANSNATION TITLE INSURANCE COMPANY

1200 Sixth Avenue, Suite 1910

Seattle, WA 98101

Attn: Kim Azure

File No. _____ (slw)

SPECIAL WARRANTY DEED

Grantor: PLUM CREEK TIMBERLANDS, L.P., a Delaware limited partnership

Grantee: POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

Legal Description (abbreviated): _____

Assessor's Tax Parcel ID #: _____

KNOW ALL PERSONS BY THESE PRESENTS: That PLUM CREEK TIMBERLANDS, L.P. a Delaware limited partnership, successor by merger to Plum Creek Timber Company, L.P., a Delaware limited partnership, qualified to do business and to own property in the State of Washington with its principal place of business located in Seattle, Washington, GRANTOR, in consideration of the sum of Ten and 00/100 Dollars (\$10.00) and other good and valuable consideration, the receipt of which is hereby admitted, does hereby grant, bargain, sell, convey and confirm unto POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP, whose address is 19245 10th Avenue NE, Poulsbo, Washington 98370-0239, hereinafter referred to as GRANTEE, and to its successors and assigns, FOREVER, the real property situated in the County of Lewis, State of Washington, described on Exhibit "A" attached hereto and incorporated herein by this reference as though fully set forth.

SUBJECT TO only those encumbrances listed on the attached Exhibit "B" [Exhibit "B" would be the recorded Permitted Exceptions.]

TOGETHER, with all and singular the tenements, hereditaments and appurtenances thereto belonging or in anywise appertaining.

And the said GRANTOR, for itself and its successors, further hereby covenants that it will forever WARRANT and DEFEND all right, title, and interest in and to said premises, and the quiet and peaceable possession thereof, unto the said GRANTEE, its successors and assigns, against the acts and deeds of said GRANTOR, and all and every person and persons whomsoever lawfully claiming or to claim by, through or under GRANTOR .

IN WITNESS WHEREOF, said GRANTOR has caused its limited partnership name to be subscribed and its seal to be affixed, by its proper officers, thereunto duly authorized, on this _____ day of January, 2004.

PLUM CREEK TIMBERLANDS, L.P.

Attest:

By Plum Creek Timber I, L.L.C.,
General Partner

By _____
Sheri L. Ward, Assistant
Secretary

By _____
Rick R. Holley, President
and Chief Executive Officer

SCHEDULE 10

Form of Assignment of Access Rights and Easements

After Filing Return To:
Warren Koons
Davis Wright Tremaine LLP
777 – 108th Ave. NE, Suite 2300
Bellevue, WA 98004-5149

Assignment of Access Rights and Easements and Assumption Agreement

Assignor: PLUM CREEK TIMBERLANDS, L.P., a Delaware limited partnership
Assignee: POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
Ref. Nos. of Documents Assigned: _____

This Assignment of Access Rights and Easements and Assumption Agreement (this "Assignment"), is made the ____ day of January, 2004, between PLUM CREEK TIMBERLANDS, L.P., a Delaware limited partnership (the "Assignor"), whose address is 999 Third Avenue, Suite 2300, Seattle, Washington 98104, and POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP (the "Assignee"), whose address is 19245 Tenth Avenue Northeast, Poulsbo, Washington 98370-0239;

WHEREAS, by Timberland Purchase and Sale Agreement for the Morton, Washington Timberlands between the Assignor and the Assignee, dated December __, 2003 (the "Purchase and Sale Agreement") and subsequent documents conveying the Assets described therein, Assignee purchased certain real property, and all rights and appurtenances associated therewith located in Lewis County, Washington; and

WHEREAS, Assignor and Assignee desire that Assignor's right, title and interest in, to and under certain access rights and easements located in Lewis County, Washington, be assigned to Assignee, as part of the transfer and conveyance of the Assets to Assignee pursuant to the Purchase and Sale Agreement.

NOW, THEREFORE, the parties hereto, for good and valuable consideration and in accordance with the terms of the Purchase and Sale Agreement, hereby agree as follows:

1. Assignor assigns, transfers, and sets over to Assignee all of Assignor's right, title and interest in, to and under the rights-of-way, easements, use agreements and other access rights appurtenant to, relating to or benefiting the Timberlands (as hereinafter defined), as such rights-of-way, easements, use agreements and other access rights were granted to or reserved by Assignor or its predecessors in interest and as are further described on Exhibit "A" attached hereto and incorporated herein by this reference as though fully set forth (the "Access Easements"). Assignee may, at its option, record this Assignment in the real property records of Lewis County, Washington.

2. Assignor assigns, transfers, and sets over to Assignee all of Assignor's right, title and interest in, to and under any and all other rights-of-way, easements, use agreements and other access rights presently held or claimed by Assignor in Lewis County, Washington, which are appurtenant and provide access to or otherwise benefit the real property being concurrently conveyed by Assignor to Assignee and legally described on the attached Exhibit B (the "Timberlands").

3. Assignee hereby accepts this Assignment of the Access Easements and assumes and agrees to be bound by and perform all of the Assignor's obligations and liabilities arising under the Access Easements after the date of this Assignment.

4. Notwithstanding anything to the contrary in this Assignment, (1) this Assignment (including Assignee's obligations and liabilities) shall automatically be effective as to any such Access Easement for which third party consent to this assignment is required and has not yet been obtained (the "Unconsented To Access Easements") at such time, and only at such time, as the required third party consent to its assignment is obtained; (2) Assignor shall use reasonable and diligent efforts, at its cost and expense, to obtain any such required consent or approval for this assignment of any Unconsented To Access Easement; (3) until such time as such consent has been obtained, Assignor will cooperate in all reasonable respects with the Assignee in any lawful and economically feasible arrangement to provide the Assignee with the benefits of the Assignor's interest in or under any such Unconsented To Access Easement (except that any such arrangement shall not require performance by Assignor as agent) provided that the Assignee shall undertake to and shall pay or satisfy the corresponding liabilities for the enjoyment of such benefits to the extent Assignee would have been responsible therefor if such consent or approval had been obtained; and (4) Assignee shall have no obligations or liabilities under or with respect to any such Unconsented To Access Easement until the earlier of (i) the date such consent is obtained and (ii) the date that Assignee receives the benefits under such Unconsented To Access Easement, and then only for obligations or liabilities arising thereunder or with respect thereto after such date.

5. Assignee hereby agrees to indemnify and hold harmless Assignor from and against any and all claims, liabilities, obligations, penalties, causes of action or damages (including attorney's fees, expenses of litigation and costs of appeal), if any, arising or accruing under the Access Easements after the date of this Assignment, or for any claim, loss, damage, cost or expense resulting from Assignee's failure to fulfill and perform the same after the date of this Assignment, or arising out of Assignee's use and enjoyment of the Access Easements, or to enforce this indemnification provision. Assignor hereby agrees to indemnify and hold harmless Assignee from and against any and all claims, liabilities, penalties, causes of action or damages (including attorney's fees, expenses of litigation and costs of appeal), if any, arising or accruing under the Access Easements prior to the date of this Assignment, or for any claim, loss, damage, cost or expense resulting from Assignor's failure to fulfill and perform the same prior to the date of this Assignment, or arising out of Assignor's use and enjoyment of the Access Easements, or to enforce this indemnification.

6. This Assignment shall be interpreted and construed under the laws of the State of Washington.

IN WITNESS WHEREOF, the parties hereto have executed this Assignment of Access Rights and Easements and Assumption Agreement the day and year first above written.

Assignor:

PLUM CREEK TIMBERLANDS, L.P.

Attest:

By Plum Creek Timber I, L.L.C., General Partner

By _____

By _____

Sheri L. Ward
Assistant Secretary

Rick R. Holley, President
and Chief Executive Officer

Assignee:

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: _____

Name: _____

Title: _____

STATE OF WASHINGTON)

)ss:

COUNTY OF KING)

On this ___ day of _____, 2004, before me personally appeared RICK R. HOLLEY and SHERI L. WARD, to me known to be the President and Chief Executive Officer and Assistant Secretary, respectively, of Plum Creek Timber I, L.L.C., the general partner of Plum Creek Timberlands, L.P., the partnership that executed the within and foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said partnership for the uses and purposes therein mentioned, and on oath stated that they are authorized to execute said instrument on behalf of the partnership and that the seal affixed is the seal of said partnership.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

Notary Public in and for the

State of _____

Residing at _____

My Commission Expires _____

Printed Name: _____



STATE OF WASHINGTON)
)ss:
COUNTY OF KING)

On this ___ day of _____, 2004, before me personally appeared _____, to me known to be the _____ of Pope Resources, A Delaware Limited Partnership, the limited partnership that executed the within and foregoing instrument, and acknowledged the said instrument to be the free and voluntary act and deed of said limited partnership for the uses and purposes therein mentioned, and on oath stated that he is authorized to execute said instrument on behalf of the limited partnership.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and year last above written.

Notary Public in and for the
State of _____
Residing at _____
My Commission Expires _____
Printed Name: _____

SCHEDULE 16.2

Required Consents

1. Private Road Crossing Agreement between Richard B. Ogilvie, Trustee of Chicago, Milwaukee, St. Paul & Pacific Railroad Company and Burlington Northern, Inc., Menasha Corporation and the State of Washington dated October 8, 1979 and recorded in the records of Lewis County, Washington in Volume 205, Page 787.

AMENDMENT NO. 1 TO OPTION AGREEMENT

THIS AMENDMENT NO. 1 TO OPTION AGREEMENT (this "Amendment") dated for reference purposes only as of May 24, 2004, amends and modifies that certain Option Agreement dated August 14, 2003 (the "Agreement"), by and between POPE RESOURCES, a Delaware limited partnership, and OPG PROPERTIES LLC, a Washington limited liability company, formerly known as OLYMPIC PROPERTY GROUP LLC, a Washington limited liability company (collectively, "Optionor"), and KITSAP COUNTY, a political subdivision of the State of Washington ("Optionee").

NOW, THEREFORE, in consideration of the mutual covenants, conditions, and agreements of the parties, it is agreed by and between the parties as follows:

AGREEMENT

I. EFFECT OF AMENDMENT. Capitalized terms not otherwise defined herein shall have the meanings given them under the Agreement. This Amendment amends and modifies the Agreement and shall be effective as of the date of mutual execution and delivery hereof. In the event of any conflict between the Agreement and this Amendment, this Amendment shall control. Except as contained within the Agreement and this Amendment, there are no other agreements or understandings between Optionor and Optionee relating to the Subject Property.

II. RATIFICATION. The Agreement is hereby reinstated, revived, and ratified as of the effective date of this Amendment. Except as expressly amended by this Amendment, the Agreement shall be in full force and effect.

III. EXTENSION OF PHASE 1 OPTION TERM. The Option Term for Phase 1 shall be extended to June 30, 2004. If Optionee either does not complete the purchase of Phase 1 under the Agreement on or before June 30, 2004, or does not complete the purchase of Phase 2 and Phase 3 under the Agreement on or before July 1, 2008, then the Agreement shall terminate automatically and neither party shall have any further rights or obligations under the Agreement except those obligations intended to survive the expiration or termination of the Agreement.

IV. EXERCISE OF PHASE 1 OPTION. Optionee desires to exercise the Phase 1 Option. A complete and accurate copy of the Phase 1 Appraisal has been delivered to Optionor. Optionee and Optionor hereby waive the requirement of Section 4 of the Agreement, as to the Phase 1 Option only, that the Phase 1 Option Notice include a survey of Phase 1 prepared by or for Optionee. Therefore, this Amendment, which among other things establishes the legal description and purchase price of Phase 1, shall constitute an Option Notice that Optionee hereby exercises the Option as to Phase 1.

V. PHASE 1 LEGAL DESCRIPTION. The legal description of Phase 1 is set forth on Exhibit A attached hereto. The parties estimate that Phase 1 comprises 426.11 acres of land (the "Estimated Phase 1 Acreage") but acknowledge that the actual Phase 1 acreage will not be determined until completion of the Phase 1 survey, as described in Section 4 of the Agreement.

VI. PHASE 1 SURVEY. The Phase 1 survey, as described in Section 4 of the Agreement, is not yet complete. Optionee covenants to cause the Phase 1 survey to be completed as soon as possible. Optionee estimates but does not covenant that the Phase 1 survey will be completed and delivered to Optionee and Optionor on or before July 31, 2004.

VII. PHASE 1 APPRAISAL. Optionee has obtained the Phase 1 Appraisal, which comprises both the initial appraisal and review appraisal, in accordance with Section 5 of the Agreement. The initial appraisal is dated April 30, 2004, and was prepared by Stephen Shapiro and Anthony Gibbons, of Bainbridge Island, Washington. The review appraisal is dated May 13, 2004, and was prepared by James Nowadnick, of Bainbridge Island, Washington. Optionee and Optionor have reviewed and approved the Phase 1 Appraisal.

VIII. PHASE 1 PURCHASE PRICE. The purchase price of Phase 1, which is based on the estimated Phase 1 acreage, the Phase 1 Appraisal, and a unit price per acre of Four Thousand Three Hundred Ninety Dollars (US\$4,390.00), shall be One Million Eight Hundred Seventy Thousand Six Hundred Twenty-three Dollars (US\$1,870,623), payable in cash at closing.

IX. PHASE 1 CLOSING DATE. The closing of the purchase and sale of Phase 1 shall occur on or before June 30, 2004.

X. PHASE 1 POST-CLOSING ADJUSTMENTS.

A. Actual Acreage Less than Estimate. If the Phase 1 survey prepared by or for Optionee, as described in Section 4 of the Agreement, discloses that Phase 1 comprises fewer acres than the Estimated Phase 1 Acreage, and if Optionor does not show proof by a preponderance of the evidence that the Phase 1 survey is clearly erroneous, then within sixty (60) days after mutual receipt of the Phase 1 survey Optionor shall refund to Optionee that portion of Purchase Price equal to the unit price per acre set forth in Section VIII hereof multiplied by the number of deficit acres.

B. Actual Acreage More than Estimate. If the Phase 1 survey prepared by or for Optionee, as described in Section 4 of the Agreement, discloses that Phase 1 comprises more acres than the Estimated Phase 1 Acreage, and if Optionee does not show proof by a preponderance of the evidence that the Phase 1 survey prepared by or for Optionee is clearly erroneous, then within sixty (60) days after mutual receipt of the Phase 1 survey Optionee shall at its option either (1) pay to Optionor an amount equal to the unit price per acre set forth in Section VIII hereof multiplied by the number of surplus acres, or (2) if possible, make agreement with Optionor on the form of a Correction Deed, for execution, acknowledgment, and recording by the parties in the real property records of Kitsap County, Washington, which shall be in the form of the Deed except for the removal of such portion of Phase 1 as the parties may mutually approve, the effect of which shall be to reduce the actual acreage of Phase 1 to the Estimated Phase 1 Acreage, provided, however, that if the parties do not make agreement on the form of the Correction Deed within (60) days after Closing, then Optionee shall have no option except to pay to Optionor an amount equal to the unit price per acre set forth in Section VIII hereof multiplied by the number of surplus acres.

XI. FORMS OF EASEMENTS. Prior to Closing, the parties mutually shall execute and deliver into escrow with Escrow Holder a Trail Easement Agreement in the form of *Exhibit B* attached hereto (the "Trail Easement Agreement"), as contemplated under Section 3 of the Agreement, and an Access and Utilities Easement Agreement in the form of *Exhibit C* attached hereto (the "Access and Utilities Easement Agreement"), as contemplated under Section 8 of the Agreement. Immediately after the recording of the Deed at Closing, the parties shall cause Escrow Holder to record the Trail Easement Agreement and Access and Utilities Easement Agreement in the real property records of Kitsap County, Washington. If a determination is made within ten (10) years after Closing by a court of competent jurisdiction that either the Trail Easement Agreement or Access and Utilities Easement Agreement or both are legally insufficient to accomplish their purposes as described in the Agreement, then the parties or their successors and assigns shall cooperate with each other and shall mutually prepare, execute, acknowledge, deliver, and record such amendments or restatements as are reasonably necessary to remedy the defects.

IN WITNESS WHEREOF, this Amendment has been duly executed by the parties hereto.

OPTIONOR:

POPE RESOURCES, a Delaware limited partnership, by
POPE MGP, Inc., a Delaware corporation, its managing
general partner

By: _____
Printed Name: David L. Nunes
Its: President and Chief Executive Officer
Date: _____

OPG PROPERTIES LLC, a Washington limited liability
company

By: _____
Printed Name: Jon Rose
Its: President
Date: _____

OPTION EE:

KITSAP COUNTY, a political subdivision of the State of Washington

By: _____

Printed Name: _____

Its: _____

Date: _____

EXHIBITS:

- A - Phase 1 Legal Description
- B - Form of Trail Easement Agreement
- C - Form of Access and Utilities Easement Agreement

1. **General.** This Agreement shall be recorded in the real property records of Kitsap County, Washington. This Agreement shall be governed by and construed in accordance with the laws of the State of Washington. This Agreement may be executed and delivered in counterparts, which together shall comprise a complete original Agreement.

GRANTOR:

POPE RESOURCES, a Delaware limited liability company, by POPE MGP, INC., a Delaware corporation, its managing general partner

By: David L. Nunes
Its: President and Chief Executive Officer
Date: _____

OPG PROPERTIES LLC, a Washington limited liability company

By: Jon Rose
Its: President
Date: _____

GRANTEE:

KITSAP COUNTY, a political subdivision of the State of Washington

By: _____
Its: _____
Date: _____

STATE OF WASHINGTON)
) ss.
COUNTY OF KITSAP)

On this ____ day of June, 2005, before me, a Notary Public in and for the State of Washington, personally appeared DAVID L. NUNES, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person who executed this instrument, on oath stated that he was authorized to execute the instrument, and acknowledged it as the PRESIDENT and CHIEF EXECUTIVE OFFICER of POPE MGP, INC., the managing general partner of POPE RESOURCES, to be the free and voluntary act and deed of said corporation and partnership for the uses and purposes mentioned in the instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

NOTARY PUBLIC in and for the State of Washington,
residing at _____
My appointment expires _____
Print Name _____

STATE OF WASHINGTON)
) ss.
COUNTY OF KITSAP)

On this ____ day of June, 2005, before me, a Notary Public in and for the State of Washington, personally appeared JON ROSE, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person who executed this instrument, on oath stated that he was authorized to execute the instrument, and acknowledged it as the PRESIDENT of OPG PROPERTIES LLC to be the free and voluntary act and deed of said limited liability company for the uses and purposes mentioned in the instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

NOTARY PUBLIC in and for the State of Washington,
residing at _____
My appointment expires _____
Print Name _____

STATE OF WASHINGTON)
) ss.
COUNTY OF KITSAP)

On this ____ day of June, 2005, before me, a Notary Public in and for the State of Washington, personally appeared , personally known to me (or proved to me on the basis of satisfactory evidence) to be the person who executed this instrument, on oath stated that was authorized to execute the instrument, and acknowledged it as the of KITSAP COUNTY, a political subdivision of the State of Washington to be the free and voluntary act and deed of said limited liability company for the uses and purposes mentioned in the instrument.

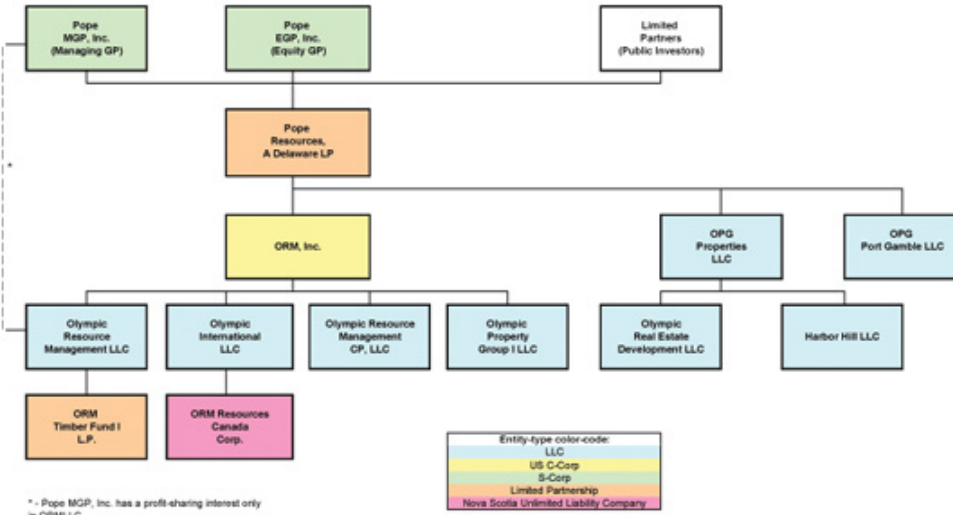
IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

NOTARY PUBLIC in and for the State of Washington,
residing at _____
My appointment expires _____
Print Name _____

EXHIBITS:

- 1 - Description of Grantor's Property [PHASE 2 AND 3 LANDS]

**Pope Resources and Related Companies
Entity Organization Chart (October 2004)**



* - Pope MGP, Inc. has a profit-sharing interest only in ORM LLC.

Consent of Independent Registered Public Accounting Firm

The Board of Directors and Unitholders
Pope Resources, A Delaware Limited Partnership:

We consent to the incorporation by reference in the registration statement (No. 333-46091) on Form S-8 of Pope Resources, A Delaware Limited Partnership, and subsidiaries of our report dated February 3, 2005, with respect to the consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, partners' capital and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2004, and all related financial statement schedules, which report appears in the December 31, 2004, annual report on Form 10-K of Pope Resources, A Delaware Limited Partnership, and subsidiaries.

Seattle, Washington
March 3, 2005

I, David L. Nunes certify that:

1. I have reviewed this annual report on Form 10-K of Pope Resources, a Delaware Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:
 - a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end period covered by this report based on such evaluation; and
 - c) disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 4, 2005

/s/ David L. Nunes
David L. Nunes
President and CEO

I, Thomas M. Ringo certify that:

1. I have reviewed this annual report on Form 10-K of Pope Resources, a Delaware Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:
 - a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end period covered by this report based on such evaluation; and
 - c) disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 4, 2005

/s/Thomas M. Ringo
Thomas M. Ringo
V.P. and CFO

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pope Resources, A Delaware Limited Partnership (Partnership) on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Nunes, Chief Executive Officer of the Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ David L. Nunes

David L. Nunes
President and Chief Executive Officer
Pope MGP
March 4, 2005

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Pope Resources, A Delaware Limited Partnership (Partnership) on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Ringo, Chief Financial Officer of the Partnership, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ Thomas M. Ringo

Thomas M. Ringo
Vice President and Chief Financial Officer
March 4, 2005
